

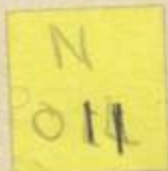
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PART VII.

FURTHER CORRESPONDENCE

RESPECTING THE

BAGDAD RAILWAY.

35

January to June 1910.

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Further Correspondence respecting the Bagdad Railway.

PART VII.

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No. 1.

Sir A. Nicolson to Sir Edward Grey.—(Received January 3, 1910.)

(No. 677. Secret.)

Sir,

St. Petersburg, December 27, 1909.

I HAVE the honour to transmit herewith copy of an *aide-mémoire* which M. Isvolsky handed to me yesterday, and which is a reply to various communications which, by your direction, I have from time to time made to him in regard to the discussions between the British and German financial groups respecting the Bagdad Railway. M. Isvolsky explained to me that this memorandum must not be considered as an exhaustive statement of the views of the Russian Government, but merely as preliminary observations. The memorandum carries the question but little further forward, and leaves the views of the Russian Government still in the region of conjecture.

It seems to me that the Cabinet of St. Petersburg has been in full possession for some weeks past of the nature of the proposals made by the German group, and that their enquiries as to the memorandum of 1907 have in reality little bearing on the new development which has recently taken place. I had hoped that M. Isvolsky would have been able to have given some general indication as to the conditions on which the Russian Government would wish to participate in the railway, and it would have been of especial interest to have known on what basis he proposes to negotiate with the German Government. I will endeavour later to ascertain whether he is willing or able to give some further enlightenment on this point.

M. Isvolsky read to me a letter and a telegram which he had received from Count Benckendorff reporting what he had gathered of the results of the mission of Sir E. Cassel, and also giving the substance of a conversation with M. Paul Cambon, who had related to him what Hilmy Pasha had said to M. Bompard at Constantinople. M. Isvolsky enquired of me whether I had received any information on the latter subject. I replied that M. Louis had been good enough to acquaint me with the statements of Hilmy Pasha. M. Isvolsky said that the question seemed to be confused, as if the Turkish Government were really to oppose any bisection of the line the proposed arrangement between the German and British groups might have to be considerably modified.

I beg leave to enclose copies of the *pro-memoria*, and of the communications from me to which reference is made in the Russian *aide-mémoire*.

I have, &c.

A. NICOLSON.

Inclosure 1 in No. 1.

Aide-mémoire by M. Isvolsky.

(Confidential.)

LE Ministère Impérial des Affaires Étrangères n'a pas manqué d'examiner l'*aide-mémoire* du 6 (19) novembre dernier ainsi que les quatre communications subséquentes de son Excellence Sir A. Nicolson en date des 9 (22), 11 (24), 14 (27) novembre, et du 18 (1^{er}) décembre, relativement à la question du Chemin de Fer de Bagdad.

[1723]

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Le Ministère Impérial croit devoir tout d'abord relever un malentendu évident concernant la question de la surtaxe douanière en Turquie. Si le Cabinet Impérial n'a pas posé jusqu'ici comme condition de son assentiment à cette surtaxe que celle-ci ne serve pas à défrayer la garantie kilométrique du Chemin de Fer de Bagdad, c'est uniquement parce qu'il considérait que la Porte a donné elle-même une assurance explicite dans ce sens dans le dernier alinéa de sa note du 5 (18) septembre dernier. S'il se trouve que cette assurance n'a pas de force obligatoire pour la Turquie, le Gouvernement Impérial ne manquera pas de formuler à ce sujet des réserves analogues à celles qui ont été faites par le Gouvernement britannique.

Le Ministère Impérial des Affaires Étrangères a appris avec une grande satisfaction que les récents pourparlers anglo-allemands au sujet du chemin de fer n'ont eu lieu jusqu'ici qu'entre les deux groupes financiers, et que le Gouvernement britannique n'acceptera aucune proposition avant que cette question n'ait été discutée avec les Gouvernements de Russie et de France, en vue d'arriver à un arrangement à quatre.

Vu l'extrême complexité des intérêts russes en cause, le Gouvernement Impérial ne pourra formuler d'une manière détaillée les conditions auxquelles il pourra se joindre à un arrangement à quatre qu'après avoir soumis cette question à une étude approfondie; il lui est d'autant plus difficile de se prononcer immédiatement, que les communications de Sir A. Nicolson ne définissent pas clairement les bases de l'arrangement projeté; le Cabinet de Londres renonce-t-il dès à présent aux idées énoncées dans le mémoire du 6 [sic] juin, 1907, remis par Sir E. Grey au Comte Benckendorff et qui diffèrent essentiellement de celles dont s'inspirent les propositions allemandes? Ainsi, par exemple, le mémoire du 6 [sic] juin prévoyait la création d'une direction internationale, tandis que les propositions de M. Gwinner tendent à un sectionnement absolu de la ligne. Le même mémoire étendait la sphère des intérêts anglais jusqu'à un point "au nord de Bagdad," tandis qu'actuellement il est question d'abandonner à l'Angleterre le tronçon de la ligne à partir de Bagdad. Il importerait au Gouvernement Impérial d'être fixé sur le point de vue du Cabinet de Londres avant d'émettre de son côté une opinion déterminée.

Enfin, la réalisation du Chemin de Fer de Bagdad pouvant gravement menacer les intérêts russes en Perse, le Gouvernement Impérial devra tâcher de s'entendre directement avec l'Allemagne sur ce côté de la question; il constate avec plaisir que le Gouvernement britannique est favorable à une pareille entente; de son côté, le Gouvernement Impérial ne manquera pas d'observer strictement à cette occasion les arrangements précédents qu'il a conclus au sujet de la Perse avec l'Angleterre et de tenir le Cabinet de Londres au courant de ses négociations éventuelles avec l'Allemagne.

Saint-Petersbourg, le 12 (25) décembre, 1909.

Inclosure 2 in No. 1.

Pro-memoria by Sir A. Nicolson.

(Confidential.)

IT will be within the knowledge of the Imperial Government that some weeks ago an application was made by Sir G. Lowther to the Sublime Porte for a railway concession for a line to connect the Persian Gulf with Bagdad via the valley of the River Tigris; and it was at the same time asked that the option should be granted to connect the Mediterranean Sea with Bagdad by a prolongation of the above-mentioned line along the Euphrates Valley.

It may also be known to the Imperial Government that the 4 per cent. surtax on the Turkish customs duties received the assent of His Majesty's Government on certain conditions, among which was one to the effect that no kilometric guarantees should be defrayed out of the proceeds of the surtax, and that an assurance in writing to this effect should be obtained from the German Government by the Sublime Porte. It is, however, unlikely that this assurance will be given; for the Bagdad Railway Company are aware that unless the additional surtax on imports is assented to by the Powers and unless some, at least, of the proceeds therefrom are applied to pay kilometric guarantees, these guarantees cannot be defrayed.

A few days since M. Gwinner informed Sir H. Babington Smith that he is now ready to consent to the following conditions:—

1. Control over the Bagdad-Persian Gulf section of the railway is to be British;

2. The construction of this section is to be carried out with British material and by British agency;

3. Non-British interests are to participate in this section only in a subordinate capacity; and

4. The railway north of Bagdad is to be in no way connected with the British group.

Sir E. Grey had informed Count Metternich that unless an agreement was reached respecting the Bagdad Railway, His Majesty's Government would be unable to consent to the Turkish customs duties being increased; and he had also observed that the necessity of inviting the co-operation of Russia as well as France constituted one of the difficulties in the way of His Majesty's Government participating in the railway. He now learns, however, that all rights to continue their railway south of Bagdad may possibly be waived by the German Government in favour of Great Britain, who would be left free, as regards the Bagdad-Persian Gulf Railway, to come to an arrangement with the Sublime Porte. It is essential for British interests in Mesopotamia to obtain this, which is the very point on which His Majesty's Government have invariably insisted. Other Powers, including Russia, are apparently disposed to agree unconditionally to the Turkish custom duties being increased; and His Majesty's Government would probably do likewise if the above-mentioned point were conceded by the German Government.

The German line north of Bagdad is a matter of very much less interest to His Majesty's Government than a line following an entirely different route from Bagdad due westwards.

A decision in the matter is urgently needed, as the question of increasing the Turkish customs duties is involved. Opposition to such an increase cannot be maintained by His Majesty's Government alone; and once this point is conceded there will be no obstacle to the completion of the Bagdad Railway by Germany.

St. Petersburg, November 6 (19), 1909.

Inclosure 3 in No. 1.

Sir A. Nicolson to M. Isvolsky.

Mon cher Ministre,

Saint-Petersbourg, le 9 (22) novembre, 1909.

[First part alludes to question as to trade routes in the south of Persia.]

JE serai toujours à votre disposition pour causer de nouveau sur la question du Chemin de Fer de Bagdad quand vous avez étudié la dernière phase de la question.

J'espère que j'ai bien expliqué que les propositions faites par M. Gwinner à Sir H. Babington Smith ne sont parvenues à Sir E. Grey que deux jours avant mon *pro-memoria*, et que nous n'avons pas perdu de temps en vous en faisant part.

Votre, &c.

A. NICOLSON.

Inclosure 4 in No. 1.

Sir A. Nicolson to M. Isvolsky.

(Confidential.)

Mon cher Ministre,

St. Petersburg, November 11 (24), 1909.

AFTER our conversation of Friday last in regard to the Bagdad Railway, I communicated to my Government the substance of some observations which you were good enough to make as being merely your first impressions, and not your final views. I have now received some further explanations from Sir E. Grey which I doubt not will entirely clear up any doubts. In the first place, I would wish to state that no bargain has been concluded and no negotiations have as yet taken place with the German Government.

My Government are not giving Germany a free hand, as in fact she already had it by the concession. Germany hopes to obtain the necessary funds by an increase of the Turkish customs duties, and all the Powers, with the exception of England, were apparently ready to concede this increase without any stipulation about the Bagdad Railway. My Government were obliged to consider what stipulation they

should make to protect themselves in giving their consent to the increase of customs duties. Russia can of course equally do the same, and my Government are waiting for your views before going further. Nothing more has been said to the German Ambassador than what I communicated in my *pro-memorandum* of the 6th (19th) November. As I informed you in a private letter two or three days ago, as soon as the proposals of M. Gwinner reached my Government they were immediately communicated to you. Moreover, the impressions as to the terms on which Germany might agree with my Government were based on the information spontaneously given by M. Gwinner, and not on any negotiations with the German Government, for none has taken place. My Government are most anxious to know the decision to which the Imperial Government may arrive as to the conditions upon which they would be willing to participate in the railway north of Bagdad. My Government have always demanded the control and the construction of the line south of Bagdad, and they could not be satisfied with less. There can be little doubt that the line will be built eventually, whether England and Russia participate in it or not, and therefore my Government must consider with great attention the present situation and the offer which M. Gwinner has mooted; but before going further with the matter Sir E. Grey is anxious to know the views of the Russian Government. There is one matter which renders the question of the southern section of extreme urgency. The Turkish Government are now commencing irrigation works south of Bagdad, and there is a probability of the river's being unnavigable from want of water. The river transport of British Indian trade, which has been in British hands for over fifty years, would thus become lost, with nothing to take its place until the railway is built.

You will see, then, that my Government, as soon as they received information as to what M. Gwinner proposed, lost no time in informing you, and that they have entered into no negotiations and made no bargain with Germany. My Government are anxious to have your views as soon as possible as to Russian participation in the railway north of Bagdad, and as to the conditions you may wish to lay down in regard to increase of customs duties.

Yours, &c.

A. NICOLSON.

Inclosure 5 in No. 1.

Sir A. Nicolson to M. Isvolsky.

Mon cher Ministre,

St. Petersburg, November 14 (27), 1909.

IN order to complete the information which I have already given you, I should like to tell you that all that His Majesty's Government have done at present is to inform you and Paris of the substance of M. Gwinner's proposals, and have hitherto given no reply to these proposals. These proposals are the minimum of what would satisfy British public opinion and British interests, and in order to obtain the southern section my Government would be willing to waive their interests in the railway north of Bagdad. The British group wish that a concession should be obtained of a branch line from Bagdad to Khanikin, and although my Government would be glad to obtain such a concession or to participate with the Russian Government in its control and construction, they have refrained from giving any support to such a proposal, and would not do so without the concurrence of the Russian Government. My Government realise that Russian interests might be involved in a line terminating at a point on the limit of the Russian sphere of interest in Persia. The German Government are aware that M. Gwinner has made certain proposals, but my Government propose to allow negotiations to be carried on by the English group on a purely commercial basis. My Government are most anxious to have the views of the Russian Government (of which they are at present in complete ignorance) as to participation in the Bagdad Railway, as a decision as to the increase of Turkish customs duties cannot be indefinitely postponed. My Government would naturally have no objection to the recognition by Germany of Russian interests in the Russian sphere of influence in Persia; but they could hardly remain indifferent if, in return for this, Russia were to make any concession to Germany in the neutral zone. My Government would certainly raise no objection to the opening of negotiations between Russia and Germany as to participation in the railway north of Bagdad, but they hope that the Russian Government would keep them informed of the progress of such negotiations.

Yours, &c.

A. NICOLSON.

Inclosure 6 in No. 1.

Sir A. Nicolson to M. Isvolsky.

Mon cher Ministre,

St. Petersburg, November 18 (December 1), 1909.

REFERRING to previous communications in regard to the Bagdad Railway, I beg leave to inform you that no negotiations are taking place with Germany, but that M. Gwinner had opened communications with the British group of financiers. It is not clear as yet what proposal will be the outcome of these communications, and until it is submitted to the British Government, with the approval of the German Government, it is not sure that it will be acceptable. If it be acceptable, His Majesty's Government will not accept it until the question has been discussed with the Russian and French Governments, so that whatever agreement may be reached may be *à quatre*.

My Government feel sure that you will explain your views fully to them, and that as the Russian and French Governments have been kept fully informed of what is passing they will be prepared to come to a decision when the need for one arrives.

Yours, &c.

A. NICOLSON.

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No. 2.

India Office to Foreign Office.—(Received January 3.)

Sir,

India Office, January 1, 1910.

I AM directed by the Secretary of State for India to acknowledge the receipt of your letter of the 29th ultimo, inviting his views on M. von Gwinner's proposals regarding British participation in the Bagdad Railway.

2. With regard to the general aspects of the proposal, Viscount Morley observes that, whereas what His Majesty's Government contemplated was the construction of the Gulf section by an entirely British company, what is now proposed is two companies, in neither of which British interests will amount to more than 50 per cent. M. Gwinner represents that while the Bagdad company would have no objection to the British interests having a controlling proportion, Hilmi Pasha has stipulated that they should be limited to this amount. This is consistent with what is known of the late Grand Vizier's attitude on previous occasions—for example, in November last, when, as reported in Mr. Marling's despatch No. 610 of the 16th November last, he had, "in order to block an exclusively British project," proposed to the German Ambassador at Constantinople an Anglo-Franco-German combination. Again, in the discussions on the Lynch concession, references were made to British designs on Mesopotamia; and it seems to Lord Morley that insistence by the Turkish Government on their present attitude would be fatal to British participation, since British capital is hardly likely to be forthcoming on any basis but that of a decisive preponderance of British interest and control.

3. Further, when the construction of the section under British auspices was first advocated, the object in view was the maintenance of British political supremacy in the Persian Gulf and the neighbouring regions. Commercial considerations, though they were not unimportant, and though they have become more important with the prospect of the agricultural development of Mesopotamia, were, and remain, secondary. M. von Gwinner's proposals do not appear to secure to this country that measure of control which is essential to the attainment of the main object of His Majesty's Government in undertaking these negotiations.

4. If his account of the origin of the proposals is correct, it would seem possible that pressure on the Turkish Government may effect a withdrawal of this objectionable limitation; and Lord Morley cannot advise the acceptance of a scheme under which British interests are not so preponderant in the Gulf section as German interests are in the western sections.

5. It is difficult to criticise the financial details of the scheme in the absence of all information as to the real state of the company's profit and loss account. Moreover, the memorandum is very obscure. The clue to the proposals is perhaps to be found in the exchange of views between the Turkish Minister of Finance and M. Kautz, summarised in Mr. Marling's despatch No. 933 of the 24th November. It would then appear that the Germans are seeking a *quid pro quo* for renouncing their claim to the additional customs duties at the expense of the Bagdad Gulf section of the line, which

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is to contribute such a lump sum to the parent company as will nominally constitute a reserve fund, but really to be used for the pressing immediate needs of the abnormally expensive Taurus section. This point seems to require careful examination before His Majesty's Government arrive at a final decision as to the additional duties; and the withdrawal of the requirement that the Bagdad Gulf section should contribute 2,000*l.* per kilom. to the parent company might perhaps be made a condition of the abandonment by His Majesty's Government of their present objection to an increase of the customs duties.

6. If this conjecture as to the real nature of the proposal is correct, the inference is that, as matters now stand, the Germans do not see their way beyond Halif; and, if this is so, there is no reason why we should be backward in making counter-proposals. And, in any case, before M. von Gwinner's complicated scheme is accepted, it seems desirable at all events to try to obtain, as the price of our acquiescence in the application of the increased customs duties to the kilometric guarantees for the German section, the acceptance of the simple scheme contemplated by the Bagdad Railway Committee, with the admission of the minimum amount of foreign interest, and, if necessary, on the basis of eventual profit sharing rather than the preliminary payment of a lump sum.

I have, &c.

R. RITCHIE.

[814]

No. 3.

Board of Trade to Foreign Office.—(Received January 8.)

(Secret.)

Sir,

Board of Trade, January 7, 1910.

I AM directed by the Board of Trade to acknowledge the receipt of your secret letter of the 29th December, transmitting copy of a letter from Sir E. Cassel with a memorandum of conversations between Herr von Gwinner and Sir E. Cassel with respect to the Bagdad Railway.

In their consideration of the proposals made by Herr von Gwinner, the Board have had the advantage of receiving additional information from Sir H. Babington Smith; and they desire me to offer the following observations for the consideration of Sir E. Grey:—

1. The Board are strongly of the opinion that the limitation of the British share in the railway south of Bagdad to 50 per cent. would be insufficient, or at least would be considered by critics in this country to be insufficient to secure the undoubted and complete control by British interests which they regard as essential, and that an effort should be made to induce the Turkish Government to consent to an extension of the British share to at least 55 per cent., and if possible to 60 per cent. They understand that Herr von Gwinner would have no objection to this course. Should the Turkish Government be unwilling to consent to the proposal, the same end might perhaps be achieved by transferring the proposed 10 per cent. interest of the Anatolian Railway to the new National Bank of Turkey, an Ottoman institution with predominant British control.

2. In view of the considerations urged by Herr von Gwinner, and the fact that the proposal appears to be acceptable to the British financial interests concerned, there does not appear to be any objection to the proposed payment to the Bagdad Railway Company out of the kilometric guarantees of the sum of 2,000*l.* per kilometre. In the opinion of the Board it would, however, be preferable, if possible, that the subsidy payable by the Turkish Government in respect of the new line should be reduced by the agreed amount, and a corresponding increase made in the amount payable by the Turkish Government to the Bagdad Railway Company in respect of the construction northward of Bagdad. This would be a matter for arrangement with the Turkish Government, but it seems desirable that the financial clauses of any agreement which may be made between the British and German groups should be so worded that, whilst ensuring that the Bagdad Railway should receive the increased subvention, the channel through which it should be paid should be left open. The adoption of the course suggested above would avoid giving the impression that, on the one hand, the British enterprise is insisting on a subvention from the Turkish Government which is admittedly excessive having regard to the cost of construction of the Persian Gulf section, and, on the other hand, that it is directly subsidising German enterprise in Asia Minor.

3. The Board hope that, in any arrangement made with the German group, it will

be clearly understood that the Germans will raise no objection to a subsequent agreement between the British group and the Turkish Government for the variation of the concession in certain important points, e.g.:—

(a) Abrogation of the article in the existing convention which prohibits construction southward of Bagdad until the railway has reached that place from the north;

(b) A variation of the route at present indicated; and

(c) A variation of the character and gauge of the railway.

4. The Board hope that it may be found possible to arrange that any railway that may be made to Khanikin should join the main line at Bagdad itself, and not at a point further north.

If it should be found necessary in order to obtain Russian consent to the proposed arrangement to agree to Russian construction and control of this branch line, the conditions on which such control should be admitted appear to want careful consideration. One necessary condition would seem to be that working agreements as to rates of charge on the branch line should be arrived at between the Russian and British companies, in order to obviate any danger of British trade with Persia by the new route being handicapped by heavy charges to the advantage of Russian trade with Persia by the northern frontier.

5. The financial arrangements under the existing convention, whereby the Turkish Government is bound to pay an excessive constructional subvention, and is to receive in return an unduly high proportion of the gross receipts, are, in the opinion of the Board, very objectionable. These arrangements impose an altogether excessive burden on the Turkish Government in the event of the line being unsuccessful through bad management or otherwise, while, on the other hand, they leave the company with little or no inducement to vigorous and efficient management, since nearly the whole of the fruits of success are allotted to the Turkish Government. The Board therefore suggest that it would be highly desirable, in the interests both of the new company and of the Turkish Government, for the former to consent to take a smaller guarantee on condition that the latter should receive a smaller proportion of the gross earnings. This would, of course, be a matter for direct negotiation with the Turkish Government itself, and at the proper time the Board would be prepared to offer definite suggestions as to the modifications which seem to them desirable.

I have, &c.

H. LLEWELLYN SMITH.

[46381]

No. 4.

Sir Edward Grey to Sir E. Goschen.

(No. 7.)

Sir,

Foreign Office, January 10, 1910.

I HAVE received your telegram of the 14th and your despatch of the 15th ultimo, reporting a conversation you have had with the German Minister for Foreign Affairs respecting the Bagdad Railway. You should inform his Excellency that I am obliged to him for his very frank explanation of the attitude of the German Government towards the participation of His Majesty's Government in the construction and control of the Gulf section of the line, although it is somewhat disappointing to learn that even if an agreement were arrived at between the financiers, which was acceptable to His Majesty's Government, the German Government might find it difficult, at any rate at the present time, to confirm it, owing to the opposition which is to be anticipated from German public opinion.

You should remind Herr von Schoen that, so far as His Majesty's Government are aware, it was Herr Gwinner who first approached Sir E. Cassel on the subject of British participation, and that the initiative in no way proceeded from the British group, still less from His Majesty's Government, who have made no move in the matter since the discussions which took place at Windsor in November 1907. When His Majesty's Government were first informed that Herr Gwinner had made overtures to the British group, they assumed that the German Government were not unaware of the proposals which had presumably been put forward, after due consideration of the advantages and disadvantages of British participation.

The German Government are aware of the attitude of His Majesty's Government towards the present discussion. Should an agreement be arrived at by the Germans

which is in all respects satisfactory to His Majesty's Government, they would be perfectly willing to sanction participation, after due discussion with the Governments of France and Russia, and they would welcome the conclusion of an agreement on a question which has been long outstanding, and which has, they fear, occasioned some soreness of feeling between the two countries.

But the suggestion that the German Government regard British participation in the light of a concession, and that some *quid pro quo* will be required from the British Government in return, in order to make the arrangement acceptable to the German people, is one which His Majesty's Government cannot entertain.

His Majesty's Government consider that any advantages which may accrue to them from participation in the railway will be more than equally shared by Germany, especially when it is remembered that the consent of His Majesty's Government to the increase of the Turkish customs duties by 4 per cent. would follow upon the conclusion of an agreement, thus imposing for the advantage of the Bagdad Railway, which has a lien upon the customs revenue, an additional burden upon the foreign trade of Turkey, of which such a large proportion is British.

Public opinion in this country would, it may safely be said, welcome an agreement with Germany on equitable lines, but any attempt on either side to obtain special advantages or to overload the agreement with extraneous questions might over-reach the mark, and, far from improving the feeling between the two countries, react injuriously upon the harmonious relations now existing between the two Governments.

As Herr von Schoen has mentioned the Lynch concession, it may be as well to explain to his Excellency that this question seems to be the subject of some misunderstanding in Germany. British vessels were accorded the right to navigate the Euphrates and Tigris by firmans of 1834 and 1841, and a company was formed by Messrs. Lynch in 1862 for the purpose of navigating these rivers. Ever since that time this firm have maintained their steamers on the rivers. The present negotiation merely relates to the amalgamation of Lynch's concession with the Turkish Hamidie Company, and the transformation of what has been an entirely British concession for so long a period into a Turkish company in which Lynch has a share.

No new rights have been acquired. On the contrary, Mr. Lynch is surrendering rights which he has enjoyed many years, and is amalgamating his interests with those of a Turkish company.

It is also to be observed that the contemplated participation of British interests in the Bagdad Railway is not an advantage additional to the Lynch concession, but may possibly impair that concession, and at any rate will be in the same region. Even if the new Lynch concession were granted and a participation of British interests in the Bagdad Railway admitted, Great Britain would only have a controlling interest in means of communication in which this country has for a long time had a vested interest through the Lynch steamers. Nothing more will have been accomplished than what will have been essential to prevent that long-established interest from being crushed out by new developments.

I am, &c.
E. GREY.

[1355]

No. 5.

Memorandum by Sir Edward Grey (communicated privately to Mr. Winston Churchill).

I CANNOT help feeling that we should be careful not to be dragged into the vortex of kilometric guarantees, as established by the convention of 1903, and that it is necessary to put our foot down at once to prevent ourselves being placed in a hopelessly false position in relation to our declared policy of the last few years. Were we to accept any scheme of co-operation in the Bagdad Railway which included participation by this country in the kilometric guarantees under the convention of 1903, it would be almost impossible to defend our action in Parliament against the attacks which would undoubtedly be made on it both there and in the press. There have already been indications in this sense in the press.

To put the matter very briefly, there are, under the convention of 1903, two forms of kilometric guarantees:—

1. A 99 years' annuity to be capitalised and devoted to the construction of the line and the provision of rolling stock; and
2. A guarantee for the working expenses.

The construction annuity is fixed at such a figure as to far exceed the cost of building the line and the supply of rolling stock, and to leave large sums for allocation, thus encouraging extravagance and fraudulent finance, as exemplified in the first section.

The guarantee for the working expenses is not conducive to the encouragement and development of traffic, since, owing to the terms in which the concession is drawn up, the most favourable situation for the company, from a financial point of view, would be that there should be the smallest possible amount of traffic, or, better still, none at all.

This brief outline is sufficient to show that the extension of the system of kilometric guarantees is very injurious to the interests of Turkey, since it involves mulcting the Turkish tax-payer of sums largely in excess of the actual requirements, while it tends to restrict the development of traffic on the line. These are very serious objections, which have already been recognised as sufficient to justify His Majesty's Government in refusing to participate in the Bagdad Railway scheme on the basis of kilometric guarantees for construction and working expenses.

It is desirable to find a solution of the situation created by Sir E. Cassel's negotiation with Gwinner, which at present involves the system of kilometric guarantees with all its faults and objections.

There are three alternatives to kilometric guarantees:—

- (a.) No guarantee at all.
- (b.) A British guarantee.
- (c.) A Turkish guarantee.

Now as regards the question of constructing the line without any guarantee at all, it is not possible to express an opinion as to whether such a course is possible or not; but I would draw attention to the case of the British Smyrna-Aidin Railway, which, ever since it was constructed in 1856, has been worked without a kilometric guarantee. Naturally all the shareholders of this line are British, and, although an incomparably poorer country than the Mesopotamian delta is served by it, it has paid a good dividend. If British investors were sufficiently enterprising to find capital for the construction of the Smyrna-Aidin Railway, it should not be impossible to find British capital for the construction of the Bagdad section, with all its prospects of irrigation of the adjoining districts.

The second alternative is that of a British guarantee of 3 per cent. on the capital spent on the Gulf section of the line, any earnings above this 3 per cent. being shared equally between the guarantors and the shareholders. This was recommended by Sir James Mackay at the Bagdad Railway Committee of 1907, and subsequently submitted to the Cabinet. Assuming the distance from Bagdad to the Gulf to be 450 miles, and the cost of construction with rolling stock 8,000l. a-mile, the cost would be 3,600,000l., and the annual guarantee 108,000l., the latter to be shared by the Imperial and Indian Exchequers. It has been stated as an objection to this proposal that the Turks would regard it as a dereliction of their sovereign rights. It would, however, if that were so, be a dereliction for which they would receive good money value, since they would be relieved of some of the onerous conditions of the convention of 1903. I think it not unlikely that they would in the end accept a proposal on these lines if it were put before them, as it undoubtedly could be, in an attractive form.

The other alternative which might be suggested to the Turkish Government is that they should themselves give a guarantee. In their case it would have to be one of 5 per cent. on the capital actually expended on the Bagdad-Gulf section, and in return article 35 of the convention of 1903 might, in so far as it relates to this portion of the line, be modified so as to relieve Turkey of both the construction annuity and working expenses guarantee. The gain to the Turkish Exchequer would be considerable, for the following reasons:—

The construction annuity, when capitalised, gives a cash yield of about 8,500l. per kilometre. From Bagdad to Koweit the distance is about 716 kilom., making the amount payable as interest by Turkey (viz., 5 per cent. on 8,500l. \times 716, or on 6,086,000l.) 304,300l., and this amount of interest would be subject to reduction only by the operation of the sinking fund, which is spread over the whole duration of the concession.

The working expenses guarantee is not a fixed charge, but it might at its maximum amount reach 4,500 fr. per annum per kilometre, which, for 716 kilom., works out at 128,880l. a-year.

The liability of Turkey in respect of the 716 kilom. from Bagdad to Koweit would

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thus, under the concession of 1903, be a sum not exceeding 304,300*l.* a-year in respect of construction guarantees, and, if the working expenses guarantee were added, it might reach 433,180*l.*

On the other hand, the 5 per cent. guarantee on the capital of 3,600,000*l.* (which, assuming 5,000*l.* per kilometre, would be the approximate cost of constructing and financing rolling stock for 716 kilom.) would be only 180,000*l.*, plus, say, 20,000*l.* for bankers' charges, &c., if that were necessary, making 200,000*l.* in all—the maximum annual liability of Turkey, and, which is an important point, this liability would not continue for 99 years, but it would cease as soon as the railway realised a net profit of 5 per cent., while Turkey would share equally in any profits over and above this 5 per cent. It would be almost incredible that she should refuse a modification in this sense.

There yet remains the point of the 2,000*l.* per kilometre which Gwinner demands should be paid to the Bagdad Railway Company from the construction guarantee for the Bagdad-Gulf section. We need not trouble about this, as it should form a subject of agreement directly between Gwinner and the Turkish Government, and need not be in any way connected with our own negotiations with the latter.

The Foreign Office memorandum of the 4th June, 1907, of which copies were given to the French and Russian Governments, represents the attitude which we should now uphold as regards our participation in the Bagdad Railway. There are one or two points in it which might be modified, but, as a whole, our policy should remain unchanged.

I have noticed in Sir E. Cassel's memorandum that no mention is made of the ports which are to be constructed at Bagdad, Bussorah, and Koweit. It may be presumed that, if the Gulf section is to be under our construction and control, the building of the ports on that section would be naturally included. It is very desirable that there should be no doubt upon this point, and the fact must not be overlooked that we are paying 4,000*l.* a year to the Sheikh of Koweit, precisely in order to control the terminus of the line. It might therefore be as well to stipulate that the terminus should actually be there and under our control.

Sir E. Cassel's proposals contemplate a certain proportion of the share capital being in British hands; but no attempt is made to show how this proportion should be permanently so secured. The following is a suggestion which has been made to me, and which, I think, is worth considering:—

The bonds for the Bagdad-Gulf section may be issued to the investing public at, say, par. We could stipulate that the Bank of England should have the right to buy up any bonds allotted to British shareholders at any time at, say, 105 or 108 per cent., or any price that might be considered fair. This would leave us free from any active intervention in the concession unless, for some political reason, such intervention should at any time prove expedient. The Japanese and other Governments constantly reserve the right of redeeming their bonds at a fixed price.

A copy of the memorandum of the 4th June, 1907, to which I have referred, is enclosed.*

E. G.

Foreign Office, January 10, 1910.

[1493]

No. 6.

Sir F. Bertie to Sir Edward Grey.—(Received January 14.)

(No. 13. Secret.)

Sir,

Paris, January 11, 1910.

M. PICHON thanked me to-day for the information which, as I had the honour to report to you in my despatch No. 5, Secret, of the 1st instant, was given to M. Conty for communication to his Excellency respecting the attitude of His Majesty's Government in regard to the Bagdad Railway negotiations between Sir Ernest Cassel and Mr. Gwinner.

M. Pichon observed to me that the French Government had all along been in favour of the internationalisation of the railway. Before he left Paris ten days ago for a holiday, he had informed the Ottoman Bank that he considered that when Mr. Gwinner

* Memorandum, June 4, 1907.

came to Paris to negotiate with French financiers the bank representatives should listen to Mr. Gwinner's proposals and report them to the French Government, but should not commit themselves in any way. If, M. Pichon said to me, the French financiers accepted terms not approved by the French Government, the loan would not be allowed a quotation on the Paris market.

The information which M. Pichon had in regard to the negotiations between Sir Ernest Cassel and the Deutsche Bank was that the conditions offered by Mr. Gwinner, viz., a 50 per cent. British participation in the Bagdad to the Persian Gulf section of the railway, were not at all acceptable to His Majesty's Government.

I have, &c.

FRANCIS BERTIE.

[1745]

No. 7.

Sir A. Nicolson to Sir Edward Grey.—(Received January 17.)

(No. 3. Secret.)

Sir,

St. Petersburg, January 3, 1910.

I HAD the honour to receive your telegram No. 743 to Sir F. Bertie of the 30th ultimo regarding the present situation of the discussions in respect to the Bagdad Railway, and the attitude present and future of His Majesty's Government in the matter. I communicated the substance of this telegram to M. Isvolsky, who desired me to convey his best thanks for the information which had been given him. He observed that matters seemed to be pretty well where they were, and I agreed that they had not moved appreciably of late. As you will have received since the dispatch of your above-mentioned telegram the *aide-mémoire* of M. Isvolsky, in which he engages to keep His Majesty's Government informed of the course of any negotiations which he may have with the German Government, I stated in my written summary of your telegram that His Majesty's Government were "glad to hear" that they would be kept acquainted with his discussions with Berlin, instead of expressing the hope that this would be the case.

I have, &c.

A. NICOLSON.

[1801]

No. 8.

Sir G. Lowther to Sir Edward Grey.—(Received January 17.)

(No. 21. Secret.)

Sir,

Constantinople, January 10, 1910.

I HAVE the honour to forward herewith a memorandum drawn up by Mr. Marling, containing observations on the bases of negotiation recently proposed at Berlin by Dr. Gwinner to Sir Ernest Cassel for British participation in the Bagdad Railway concession.

The subject of the Bagdad Railway and our proposals concerning the Bagdad-Bussorah section have engaged considerable attention here lately, and Mr. Marling has naturally had special opportunities during my absence of gauging the official and general view on the subject.

Mr. Marling also annexes a short memorandum by Mr. Whittall, containing the substance of a proposal suggested by him on the lines of the modification of the present Convention by the construction of a narrow gauge from Bulgurlu on, with branches to Samsoon and Erzeroum, thus economising the kilometric guarantees for the originally planned railway, and using the surplus for the latter lines.

I have, &c.

GERARD LOWTHER.

Enclosure 1 in No. 8.

Memorandum by Mr. Marling.

Observations on the Bases of Negotiation proposed by Dr. A. von Gwinner to Sir E. Cassel for British Participation in the Bagdad Railway Concession.

THE bases proposed by Dr. von Gwinner are really four in number and in essentials are the following:—

1. That the provisions of the existing Bagdad Railway shall be maintained practically unaltered;
2. That a company, in which Great Britain should have a 50 per cent interest, shall be formed for the construction and working of the Bagdad-Persian Gulf section;
3. That out of the construction loans required for those sections a sum representing 2,000l. per kilom. shall be ceded by the new company to the Bagdad Railway Company, which provision necessarily implies that the former (or British) company will not abandon the Turkish Government's guarantee for the interest on these loans; and
4. That the consent of the Turkish Government be obtained to the arrangement.

Looking at the question from a purely local standpoint it is safe to say that if these are to be the bases on which British participation in the Bagdad Railway is to be brought about, they will arouse the greatest mistrust and opposition in Turkey, and it may be predicted with confidence that the Turkish Government will refuse to sanction the scheme.

In the first place the formation of a "British" company to take over the Bagdad Gulf sections will be regarded as another step taken to advance British designs on Mesopotamia; at the best we might succeed in clearing ourselves of the accusation of cherishing schemes of territorial aggrandisement, and be arraigned only on the minor count of seeking to partition out Turkey into spheres of influence, but even this would be scarcely less galling and offensive to the Turks with their newborn ideas of national independence. To the more enlightened Western mind these suspicions seem ludicrous enough, and it might be supposed that it should not be difficult to disabuse the Turks of them; but to those well acquainted with this country nothing seems more natural than that they should exist, and that those who hold them should pride themselves on their political sagacity; while as for eradicating them, it need only be said that there is only one thing more difficult than getting an idea into a Turk—and that is to get one out.

Independent evidence of the existence of this feeling will be found in Mr. Consul-General Howard's despatch No. 7, Very Confidential, of the 29th November last, in which, in reporting on the visit of Dr. Nazim and Riza Tewfik Beys to Budapest, he recounts that these gentlemen, in speaking of the external affairs of Turkey, commenced by expressing their mistrust of British activity in Mesopotamia, while the recent developments of the Lynch case furnish sufficient testimony of the ease with which the Turkish suspicions can be played on. It is of course not beyond the bounds of possibility that at some future date saner views may prevail, but the spark of distrust will remain for long ready to be blown into flame by any one interested in thwarting us.

The Minister of Finance, it may also be mentioned, has told several English friends lately that the rumours that the negotiations were proceeding on these lines were causing the gravest disquietude here.

Next, there is the question of the guarantees. If the stipulations of the existing concession are to be maintained, as the memorandum implies, the new British company will enjoy guarantees both for the interest on the construction loans and for the working expenses. What will be the effect of such a proposition on the Turks? To say the least of it, we should in their eyes stand convicted of the most flagrant inconsistency. Not only has the embassy, under instructions, sounded the Porte as to the grant of a concession for a railway (to compete with or be a substitute for the German Bagdad line), without guarantees of any kind, but we have made a condition of our assent to the increase of the import duties that the product of such increase shall not be applied to new railway guarantees, and in the subsequent negotiations we have never concealed, or rather we have openly avowed, that our object in doing so was to block the Bagdad Railway. We have in fact, both as a general principle and in specific

instances, steadfastly set our faces against the whole system of kilometric guarantees, and yet we are now being asked to claim them for ourselves in respect of a section of railway against the completion of which we have been consistently and strenuously working for years past.

To the Turks this *volte-face* will be worse than inconsistency—it will be treachery. There has been much wild talk by unauthorised persons of our benevolent intentions towards Turkey in connection with this matter, and public opinion believes that our opposition to the Bagdad Railway is at least as much inspired by a wish to relieve the country of a burthensome engagement as by the necessity of defending our own interests, both commercial and political, in those regions. If we were now to accept Dr. von Gwinner's proposal that we should accept the Bagdad Railway Convention as it stands, would not the Turks conclude that our opposition had been purely factious, inspired by chagrin at being excluded from a "share in the plunder," while naturally their suspicions as to our designs on Mesopotamia would be redoubled? The case would even be worse than this, for we should presumably ask for the cancellation of that part of article 29, which stipulates that, so long as the main line between Konia and Bagdad is not complete, no part of the Bagdad-Bussorah section that may have been built may be opened for traffic. Now this article was framed at the desire of the Turks, so that, so far from obtaining any modification of the existing conditions in their favour, we should be asking them to forego one of their own *desiderata*.

In these circumstances what shred of credit for disinterestedness would be left us with the Turks? What chance could there be of their consenting to the arrangement contemplated?

But the question also demands examination from the German side. From what has been said above, it is pretty evident that our acceptance of Dr. von Gwinner's bases involves the gravest risks for our credit here—a contingency so eminently pleasing to the Germans as to provoke the conclusion that Dr. von Gwinner must have had that object in view when he formulated the proposals made to Sir Ernest Cassel. On the other hand, it must be remembered that we have always consistently harped upon the necessity of protecting our position in Mesopotamia, and it is quite conceivable that Dr. von Gwinner made his overtures on these lines in good faith. It would, however, be idle to pretend that he and the German Embassy here are not quite alive to the loss of credit and influence which must result to us should we consent to negotiate on the proposed bases.

It is also worth while considering what the effect of abortive negotiations on these lines would be on the prospects of the completion of the Bagdad Railway by the Germans alone. It is safe to say that they would be improved, for the Turks would be disposed to discount our opposition as merely selfish and not based on any belief in the inherent demerits of the scheme. At present we hold a strong position, but as time goes on our position is likely, so far as can be seen, to grow weaker rather than stronger. The Germans, for instance, are still suffering from the odium of their profitable intimacy with the old régime, but this will gradually diminish. Again, it is doubtful how long we could maintain our veto on the application of any new customs duties to railway guarantees, or rather, how long such veto will be effective, as the Ottoman Government may in a few years be able to supply the required sum from the surplus revenues of the Dette; while it must further be remembered that our strongest weapon of all—the prohibition to quote Bagdad Railway shares on the Paris Bourse—is in the hands of the French Government, and circumstances might arise in which it might feel constrained to authorise the quotation.

If, then, the bases proposed by the Germans for our participation in the enterprise are in all probability impracticable, and certainly involve some considerable risk, the question arises whether some combination is not feasible, and of the many that have been sketched the three following seem to be the best worthy of consideration:—

The first is that we should participate on satisfactory terms in the Bagdad Railway as a whole. It may be possible that some arrangement could be found to effect this, but at first sight the objections seem to be insurmountable. In the first place, the Germans are, it is understood, opposed to the proposal; and in the second, if we are to escape the charge of inconsistency as above explained, radical modifications in the financial interests of Turkey would have to be made, to which the Germans could not agree.

The second combination is the project advocated by Mr. Edwin Whittall, and, like the former, would have the inestimable advantage of conciliating British and German interests. His proposal, of which an outline hastily prepared by himself is enclosed, is

briefly that, instead of carrying on the railway from its present head at Bulgurlu with the normal gauge, a narrow gauge line should be built on the existing tracé with branches northward to Samsoon and north-east to Erzeroum, thus opening out the whole of Asia Minor. Mr. Whittall gives figures to show that the total annuities payable under the existing Bagdad Railway concession by the Turkish Treasury as kilometric guarantees on construction loans would suffice to provide the capital required for the whole of this narrow gauge system, and he argues with much force that the change of gauge is not really a matter of importance. The undertaking would be "internationalised."

His memorandum, however, though brief, explains the outlines and arguments in favour of the scheme with so much clearness that it may safely be left to speak for itself, but it is necessary to point out the circumstances which militate against it, viz., that the Turkish staff is strongly opposed to the change of gauge; that the scheme has been coldly received by Dr. von Gwinner; that there would be great difficulty in fixing the respective proportion of control, &c., among the Powers interested; that the Turkish Government seems to be already in treaty with a Franco-Russian group for the projected Samsoon-Sivas Railway, which would have to be incorporated in the new system; and that it is doubtful whether the Russian Government would view with approval a proposal which would bring the frontier fortress of Erzeroum into communication with the rest of the Empire.

The third alternative is for an English or Anglo-French group to obtain a concession for the railway advocated by Sir William Willcocks from Homs to Bagdad, and thence to Bussorah and the gulf without guarantees of any kind whatever from Turkey. The difficulties standing in the way of realising this scheme are great. It would of course encounter the most strenuous opposition from the Germans, who would regard it as a declaration of renewed war, and who might be expected to play to the utmost on the Turkish superstition concerning our Mesopotamian designs; it may, however, be anticipated that their efforts in this direction would not meet with so much success as usual as the prospect of seeing Syria and Mesopotamia linked by railway would certainly prove an attractive bait to the Arab and Syrian parties, to say nothing of the inducement held out to the nation at large in the shape of a railway which without any financial burthen on the Treasury would do for it nearly all that the German Bagdad scheme promises at an enormous cost.

But there is another obstacle, viz., the difficulty of finding the requisite capital for the undertaking, except under a guarantee from His Majesty's Government, and a guarantee from His Majesty's Government would, if publicly known (as pointed out in the despatch from this embassy, No. 946, of the 5th December last), probably prove fatal to the chances of the concession being passed by the Ottoman Parliament. On the other hand, to keep such a transaction secret or to veil it so as to be inoffensive to Turkish susceptibilities seems almost impossible, so it remains to be seen whether a group could not be formed to finance the scheme without a guarantee. The commercial prospects of the line as a whole are intimately connected with the development of Mesopotamia under irrigation, and it may be taken for granted that if Sir William Willcocks's predictions as to the future of that country are but half fulfilled the line under discussion would eventually prove highly remunerative. The Bussorah-Bagdad section, however, would probably do something more than pay its way from the very start, and would certainly be immediately benefited by the irrigation works, and it is by no means inconceivable that the Porte, in view of the immense advantages which the scheme as a whole offers, might be induced to allow that section to be built first. In that case the promoters of the railway would be getting some return on their invested capital for a few years, during which it might be expected that the irrigation works would have made sufficient progress to make the financial success of the western part of the line a certainty in the very near future.

The concessionaire company would of course have to enter into an engagement to complete the Bagdad-Homs section within a reasonable time, but always provided that the Turkish Government on its side carried out the irrigation schemes with due diligence.

But even in these circumstances, it is evident that it will be no easy matter to find a group of capitalists able and willing to invest a large amount of capital without any guarantee, and with the prospective profits, considerable as they probably would be, dependent on the capacity and energy of the Turkish Government to execute and work a large and complex scheme of irrigation. In London the interest taken in Turkish affairs appears to be so languid that a purely British group—even if it were desirable—is probably an impossibility, and if co-operation is to be sought it will probably be most easily found in Paris among the financial houses in relation with the National Bank.

In spite of these difficulties it would, it is suggested, be our best policy to make the acquisition of a Homs-Bagdad-Gulf Railway concession our immediate objective, and to decline Dr. Gwinner's proposals. If we can secure it, we should realise all our aims—except that of conciliating British and German interests in Turkey—we should have a fair opportunity of bringing about the fusion of British and French financial interests, which M. Pichon's recent speech in the Chamber shows would be welcome in Paris, and we should be in a position, while satisfying Russia, to safeguard our monopoly of transit trade via Bagdad to Persia. Moreover, the Homs-Bagdad-Gulf scheme is the one which apparently has caused the greatest misgivings to the Germans, and there is every prospect that if we made it our avowed policy to carry it through, the Germans would accept any reasonable terms that we might formulate in our own and Turkish interests as a condition of our participation in the Bagdad Railway.

Enclosure 2 in No. 8.

Memorandum by Mr. Whittall.

A Solution of the Bagdad Railway Question: Broad Lines and Objects of the Scheme.

A CHANGE from normal gauge to narrow gauge (1.05 metre) of the whole railway system from Bulgurlu (the present terminus of the line) to Bagdad and on to the Persian Gulf, and the extension of this narrow gauge system by a new line from Alexandretta on the south, to the Black Sea, at Samsoon, on the north, and to Erzeroum on the east, thus opening up the whole of Asia Minor.

2. The transfer to this extended narrow gauge system of the total lump sum which would have been payable to the Bagdad line under its present convention in annuities for the service of construction loans.

3. An equitable and satisfactory regulation of the kilometric guarantees per kilometre for working expenses.

4. A change in the conditions regarding curves and gradients, speed, &c., and also with respect to the division of the gross receipts over the minimum guaranteed so as to permit of the concessionaire company always receiving at least 50 per cent. thereof.

5. The conditions of the Bagdad convention to be maintained in their entirety, save in so far as they may be modified by the proposed changes of gauge, &c.

6. The removal of the objections which oblige Turkey to refuse to grant the further kilometric guarantees required to complete the present line to the Persian Gulf.

7. The settlement of all international jealousies under a participation by England and France in the extended project, and the consequent emission on the Paris and London markets of the scrip of the various loans which will be issued.

Proposed Narrow Gauge Lines.

(a.) From Bulgurlu to Adana, Alexandretta, and Aleppo, and thence along the Euphrates to Hit, Kerbela, and Bussorah, with a branch line from the nearest point on the Euphrates to Bagdad, and thence to Khanikin on the Persian frontier. Total, about 2,280 kilom.

(b.) A new line from Alexandretta to Tell Habesh, Ourfa, and the Harran district, and thence northwards, via Arghana, Kharpout, Sivas, to Samsoon (about 1,050 kilom.), with a branch line from Kharpout to Erzeroum (about 270 kilom.). Total, about 1,320 kilom.

Hence the total length of the whole of the proposed lines would be about 3,600 kilom.

LENGTH of lines (obligatory) under the present Bagdad Convention, to which annuities and kilometric guarantees have been assigned:—

						Kilometres.
Bulgurlu to El Helif	..	..	..	..	..	(about) 840
Tel Habesh to Aleppo	..	..	..	..	..	60
El Helif to Mosul	..	..	..	..	..	180
Mosul to Bagdad	..	..	..	..	..	470
Bagdad to Bussorah	..	..	..	..	..	700
Sadige to Khanikin	..	..	..	..	..	110
Zobeir to Koweit	..	..	..	..	..	140
Total	..	..	..	..	..	2,500

Annuity Payable by Turkey on the Construction Cost of the above 2,500 kilom. Normal Gauge Line under the Terms of the Bagdad Convention.

The ninety-nine year annuity, guaranteed to the Bagdad Railway Company for interest 4 per cent. and sinking fund (.087538) on the loans accepted and taken up by them in payment for the construction of the line, is fixed at 11,000 fr. per kilometre constructed. Hence the nominal price to be paid by the Turkish Government in scrip at par for the construction of each kilometre works out at 269,111 fr.

It follows therefore—

That the annuity payable by Turkey on the 2,500 kilom. (2,500 kilom. \times 11,000 fr.) is 27,500,000 fr., and therefore that the sum payable by Turkey in scrip at par for the construction of the 2,500 kilom. (2,500 kilom \times 269 111 fr.) is 672,777,000 fr.

As, however, under present circumstances, with the Paris and other European markets closed, a 4 per cent. loan could not probably be placed with German underwriters at over 80 per cent. of the par value, it follows that the actual sum which would be realised in cash from the scrip delivered by Turkey in payment of the construction cost would be 269,111 fr. \times 80 = 215,289 fr. per kilometre, or 538,222,500 fr. for the whole 2,500 kilom.

Repartition of the above found Annuity of 27,500,000 fr. over the 3,600 kilom. of the Proposed Enlarged Narrow Gauge System.

This same annuity of 27,500,000 fr. divided over 3,600 kilom. would yield 7,639 fr. per kilom.

An annuity of 7,639 fr. capitalised on the basis of 4 per cent. interest and .087538 sinking fund would yield 186,880 fr.

This sum would be payable by the Turkish Government in scrip at par for each kilometre.

The admission under the proposed scheme of this scrip on Paris and London markets would enable it to be placed at fully $3\frac{1}{2}$ points advance, or say at 83 $\frac{1}{2}$.

The cash yield at 83 $\frac{1}{2}$ per cent. of 186,880 fr. in scrip would be 156,045 per kilometre available for construction purposes.

Comparative Capital in Cash to be Provided by the Turkish Government for Construction per kilometre under the two Schemes.

Under the Bagdad convention 2,500 kilom. normal gauge, 215,289 fr. per kilom.

Under the extended system 3,600 kilom. narrow gauge, 156,045 fr. per kilom.

With the above data before us we can the more easily look into the financial aspects of the new project and compare it, both from the point of probable construction profits and also eventual working results with those which may be expected from the present Bagdad concession.

This is essential, for we could not ask Germany to accept so serious a modification of a concession already secured unless we can show her that her material interests would not suffer.

It must be understood that there is no pretence that the estimates given herein, or the figures on which calculations are based, are correct. They are as nearly so as a rough study can render possible. In the same way, the comparative mileages are only approximately estimated by rough map measurements. They should be quite sufficiently near the mark, however, to permit of fairly reliable deductions and comparisons.

Comparative Construction Profits.

The conditions under the Bagdad convention as regards curves and gradients, &c., as well as the high minimum speed stipulated for are factors which seriously increase the cost, and therefore reduce the profits to be earned on the construction contract price of 215,289 fr. per kilometre.

Further, the unfavourable division of the gross receipts over 4,500 fr. per kilometre, though it may not be felt for many years to come, is undoubtedly a consideration

which ought to be provided for by some sort of reserve fund to be taken out of the original construction profits.

We shall probably be not far from the truth if we put down the average cost of 2,500 at 140,289 fr. per kilom., and the average profit to be made on the construction at 75,000 fr. per kilometre.

From this profit we must deduct at least 10,000 fr. per kilometre for the reserve fund immediately above referred to, leaving 65,000 net fr. profit per kilometre on 2,500 kilom., or in all (65,000 \times 2,500) 162,500,000 fr.

The cost of the Bagdad convention normal gauge line is estimated above at 140,289 fr. per kilometre. The saving in cost between such a line and a narrow gauge line under normal conditions has been put down at about 20 per cent. or (on 140,289 fr.) 28,062 per kilometre. This gives us a comparative figure of 112,227 fr. as the cost per kilometre of the narrow gauge line.

The sum available for construction of the 3,600 kilom. has already been shown to be 156,045 fr. per kilometre. Hence the probable profit on the 3,600 kilom. of narrow gauge line would be :—

	Per kilometre.						
	Fr.						
Contract price	156,045
Cost	112,227
Profit	43,818

Or on 3,600 kilom. 158,445,000 fr. total profit.

The comparison of total estimated profit therefore works out :—

	Fr.						
On the present Bagdad line	162,500,000
On the proposed narrow gauge system	158,445,000

The difference is quite insignificant.

N.B.—Under the extended scheme, the conditions as to curves and gradients, speed, &c., will be less costly, and a working basis of 50 per cent. of the gross receipts over the guaranteed minimum will render it unnecessary to place any part of the construction profits into reserve, as in the case of the Bagdad convention.

We have tried to show in the preceding lines that the probable profits on the construction of the 3,600 kilom. narrow gauge system would be on a par with those estimated to result from the present normal gauge line.

Let us now compare the two schemes from the point of view of the probable results to be derived from the actual working of the lines.

Under the Bagdad convention the Government guarantees an average minimum of 4,500 fr. per kilometre of gross receipts. Any deficiency has to be paid to the company at the end of each year in cash.

All gross receipts over 4,500 fr. up to 10,000 fr. average per kilometre go to the Government. Over 10,000 fr., 60 per cent. goes to the Government, 40 per cent. to the company. This implies that when the receipts average 10,000 fr. the company will have to work the line, cover all the expenses, and make their profit (?) on 45 per cent. of the gross takings! Over 10,000 fr., the company's margin for working expenses and profit becomes still further reduced. This is the eventuality which necessitates the putting aside as a reserve fund of 10,000 fr. out of the construction profits, previously referred to. The proposal under the new scheme is that the Government's guarantee minimum of gross receipts for working expenses should be reduced to 4,000 fr. average per kilometre on the 3,600 kilometres. That the gross receipts over 4,000 fr. up to 8,000 fr. should go to the Government, and that any surplus gross receipts over 8,000 fr. should be divided equally between the company and the Government. In this way the company would always have a 50 per cent. minimum of the gross receipts for working expenses and profit.

Would the exploiting company be a loser by the change from 4,500 fr. for normal gauge to 4,000 fr. for narrow gauge?

No; for the cost of working and upkeep, including interest on rolling stock and depreciation, would be fully 500 fr. less per kilom. for the narrow gauge line.

Would the Turkish Government be a loser or a gainer by guaranteeing 4,000 fr. over 3,600 kilom., as compared with 4,500 fr. over 2,500 kilom.?

Undoubtedly a gainer, as whether the gross receipts are above (1), or below (2) the guaranteed average minimum.

1. Under the new scheme the Government receives the surplus over 4,000 fr. from 3,600 kilom. of line, whereas in the Bagdad convention it receives the surplus over 4,500 fr. on only 2,500 kilom. of line. The advantage is clear.

2. Let us consider the case of the average receipts over both systems being only 3,000 fr. per kilom. The Government would have to pay the company at the end of the year under the Bagdad convention 4,500 fr.—3,000 fr., i.e., 1,500 per kilom., 2,500 kilom. \times 1,500 fr. equals 3,750,000 fr.

Under the new scheme the result would be that the Government would have to pay 4,000 fr.—3,000 fr., i.e., 1,000 fr. per kilom. or 3,600 kilom. at 1,000 fr. equals 3,600,000 fr.

Thus on a very low basis of the average gross receipts the cost to the Turkish Government under the two schemes would be almost identical, whereas on any higher average there would be increasingly handsome advantage in favour of the extended project, together with a much more rapid reduction of liabilities assumed by the Government. Further, the concessionaire company itself would in no way suffer.

It will be argued that the narrow gauge system breaks the continuity of the through line from Constantinople to Bussorah; that the change of gauge at Bulgurlu would interfere with through traffic, entail delays and extra expense for transshipment, and, lastly, that a double supply of rolling stock will be necessitated.

At first sight these objections may appear to be really serious, but a careful study of the actual conditions will soon dissipate this fear. A glance at the map will show that the Taurus constitutes, so to say, a trade water shed south and north.

All produce must inevitably trend towards the nearest seaport, and the nearest port to the consuming centre must receive the imports. The southern Taurus and all the eastern trade must find its outlet and inlet by the Mediterranean or Persian Gulf, and the northern Taurus trade by Smyrna or the Marmora.

No through goods traffic worth speaking of can ever exist from south of the Taurus to north, nor from north to south.

The change of gauge, therefore, at Bulgurlu could not have any serious consequence commercially in that nature has already laid her veto on a through goods traffic. There would be no delay of through military or passenger traffic, which undoubtedly would be considerable both ways. A transfer from train to train would be a question of minutes only, and the movement of troops would not be retarded.

As regards different rolling stock for the narrow gauge line, it is not easy to see how it will really be a source of extra expense or a drawback in any way.

In the first place, there is no through goods traffic which would have constituted a drawback had it existed.

Secondly, central and eastern Asia Minor can only be opened up by means of a narrow gauge system from Alexandretta on the south to the Black Sea and Erzeroum. The Hedjaz line is also narrow gauge. Would it not then be much more rational that the whole network of railways east of Konieh and Bulgurlu, comprising north-eastern, southern and eastern Asia Minor, Mesopotamia and Arabia, should be narrow gauge. The western Asia Minor line would remain normal gauge. If the Bulgurlu-Bussorah line were built normal gauge there would be a much more serious break of continuity at the junction with the northern and southern narrow gauge line with the main line of normal gauge. Natural conditions seem to have marked out Bulgurlu as the best spot for a change.

The centre of the narrow gauge system would best be at Alexandretta, a port in every way suited for the central depôts, repairing shops, &c.

The western normal gauge lines have already their own rolling stock sufficient for their requirements. The eastern narrow gauge network will in like manner possess its own.

Hence the break of continuity at Bulgurlu in the Constantinople Bussorah line would be rather a sentimental than a real obstacle.

It could not interfere with a through goods traffic which never would exist. Nor would the necessity of a separate rolling stock be of any drawback or extra expense.

We have so far tried to tabulate and explain away the objections which might be advanced against the new scheme. Its evident advantages are more easily grasped.

1. Turkey would secure the opening up of Asia Minor and Mesopotamia by one connected system, north, south, and east. The commercial, strategical, and political importance to the Government, and to the people is incalculable.

It would be attained free of any extra cost to the nation beyond the engagements already assumed under the Bagdad convention. Agriculture and commerce would take rapid strides. The increase of the strides and of the customs receipts would be a net profit to the nation, and rapidly help to swell the revenues. And lastly the opening up of the rich districts of Asia Minor would bring about much more rapidly than with the present Bagdad line, the increase of the gross receipt which eventually will relieve the nation of the kilometric annuities and guarantees already incurred under the Bagdad convention. The strategic and administrative importance of the scheme is too manifest to necessitate our dwelling upon it. Communication will be established by rail from west to east and south and north, and to the farthest corners of the Empire.

2. We have shown that Germany would not suffer financially either as regards construction profits or on the eventual working of the line.

The clauses and conditions of the Bagdad convention would be applied in their entirety to the new system, save in respect to the modification which naturally follows from the change of gauge and to the modifications which are suggested herein, re division of surplus plus receipts, &c.

The unification under one management and control of the whole network of railways in Asiatic Turkey and Mesopotamia must be of the highest importance to Germany.

3. The enlarged scheme would render a settlement of participations for England and France much more easy, and put an end to international jealousies.

4. An arrangement could be come to with Russia, under which she takes an interest in the Sivas-Samsoun section.

5. Even if an arrangement with England were come to regarding the present Bagdad concession, it is practically certain that Turkey would long delay granting the kilometric guarantees for any extension of the line beyond El-Helif (Mardin).

But if the commercial and strategical benefits of the new scheme were put in the balance, it would be so manifestly to her advantage that she probably would willingly make the necessary financial sacrifices.

[1788]

No. 9.

Sir E. Goschen to Sir Edward Grey.—(Received January 17.)

(No. 10.)

Sir,

Berlin, January 12, 1910.

I HAVE the honour to transmit herewith translation of a private telegram emanating from Constantinople, which has appeared in the "Frankfurter Zeitung," relative to alleged purchase of land by English capitalists in Mesopotamia.

I have, &c.

W. E. GOSCHEN.

Enclosure in No. 9.

Extract from the "Frankfurter Zeitung" of January 8, 1910.

(Translation.)

(Telegraphic.)

GROWING anxiety is making itself felt in the Porte on account of the occurrences in the provinces of Bagdad and Bussorah. A confidential order issued by the Porte to the governor of Bussorah lifts a corner of the veil which hangs over the proceedings, and gives the key of the movement which is going on amongst the Arab population in the Euphrates and Tigris districts. The English capitalists are making large purchases of land in Shatt-el-Arab and mid-Mesopotamia. The larger part of the land purchased

consists of date plantations, the cultivation of which is to receive great impetus from the English action. Several large purchases have already been made, and recently the immense lands of the influential landowner of the province Bussorah—Zuhehir Zade Ahmed Pasha—have passed into English hands. These systematic purchases are beginning to be regarded here in the light of a serious danger. The valis of Bussorah and Bagdad have been instructed to discourage the sale of lands to foreigners. It is said that an unsuccessful attempt has been made to cancel the English transaction with Zade Ahmed Pasha.

[2075]

No. 10.

Sir Edward Grey to Sir F. Bertie.

(No. 38.)

Sir,

Foreign Office, January 22, 1910.

THE French Ambassador called at the Foreign Office on the 13th instant, and informed Sir C. Hardinge that he had two days before had a long conversation with M. Pichon, who had explained to him the views of the French Government on the question of participation in the Bagdad Railway, and had authorised him to communicate to me what had been said.

M. Pichon foresaw that there would be very great difficulty in obtaining from the Turkish Government and Parliament their assent to the British proposal for the control and construction of the Gulf section, since the Turkish Government would oppose any scheme which had the appearance of creating a sphere of influence, and would be very suspicious of British aims in Mesopotamia. He said he was in favour of internationalisation of the whole line on equitable terms, a scheme which would not be likely to meet with any opposition on the part of the Turkish Government. He realised, however, that such a scheme presents no attraction to His Majesty's Government. In the event, therefore, of His Majesty's Government adhering to their present demands, he had decided what the demands of the French Government would be. They are as follows:—

1. Facilities for the junction of the Syrian railways with the Bagdad railway.
 2. Restitution to the French Syrian Company of certain rights in branch lines abandoned by them to the Bagdad Railway Company.
 3. A concession for a railway from Bagdad to Homs and the Mediterranean.
- The demand for the latter concession would be absolutely essential.

M. Cambon said that an Anglo-French group of a sound character is already being formed with a view to financing the irrigation projects in Mesopotamia, and that Sir E. Cassel is in the group. The French Government would propose that the Bagdad-Homs line should also be financed by British and French capital. It was estimated in Paris that the line could be built for 3,000,000l.

On the 20th January Sir C. Hardinge took an opportunity of explaining to the French Ambassador that His Majesty's Government have no intention of pressing upon Turkey any proposal which is disagreeable to her, and that our first step, when matters are sufficiently advanced to enable progress to be made, will be to ascertain the views of the Turkish Government before pressing anything. It was pointed out to his Excellency that it is the Turkish desire to increase the customs duties by 4 per cent., and not any action on the part of His Majesty's Government, which has set the whole matter in motion.

I am, &c.

E. GREY.

No. 11.

Memorandum respecting the Bagdad Railway, 1909.

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IN the spring of 1909 the Bagdad Railway question was briefly in the following state:—

The Bagdad Railway Company had secured by their Convention of June 1908 with the Turkish Government a lien on the surplus of the ceded revenues to furnish the kilometric guarantees by which the railway was to be continued beyond Boulgourlou. It did not appear likely that any surplus would be available in the near future unless the ceded revenues were augmented by an increase of the Turkish customs, nor was it probable that the Turkish Government would be induced without the greatest difficulty to pledge other revenues for the benefit of the railway.

The Turkish Ambassador in London had in November 1908 intimated to His Majesty's Government the Porte's desire to raise the Turkish customs duties from 11 per cent. to 15 per cent., and he had been informed that the assent of His Majesty's Government to that course would only be given if they received an undertaking that the proceeds of the increase were not devoted to any existing enterprise. This undertaking, Rifaat Pasha said, his Government was prepared to give.

To Rifaat Pasha,
November 13,
1908.

The questions of the customs increase and of the Bagdad Railway had become indissolubly bound up together owing to the lien on the surplus of the ceded revenues secured by the Bagdad Railway Company. When, therefore, it became evident that the Turkish Government would shortly apply officially for the consent of His Majesty's Government to the increase of the duties from 11 per cent. to 15 per cent., and as there appeared to be no intention on the part of Germany to invite British participation in any form in the railway, it became a question whether it would not be necessary to use the customs increase as a lever with which, if possible, to bring about a solution of the Bagdad Railway question satisfactory to His Majesty's Government. The first idea was that failing the attainment of a satisfactory solution, such as participation in the Bagdad Railway Concession by securing in British hands the construction and management of the Gulf section of the railway, His Majesty's Government should only accept the proposed customs increase if they should receive a Concession for a railway from the Persian Gulf to Bussorah and Bagdad along the valley of the Tigris, with the option to prolong it along the valley of the Euphrates to Tripoli or some other port on the Mediterranean; the construction of such a line to be carried out without any Turkish kilometric guarantee. This condition was, of course, to be additional to that already formulated, that the proceeds of

Tigris Valley
Railway.

the increase should pass to the Turkish Exchequer, and be kept free from any existing lien.

Djavad Bey,
May 27, 1909.

At the end of May an official request was received from the Turkish Government for His Majesty's Government's assent to the increase by 4 per cent. of the Turkish customs duties. The Turkish Chargé d'Affaires' note alluded to the financial difficulties of his Government, from which relief could only be found by the proposed measure; alluded to the undertaking already given by the Turkish Ambassador that the proceeds of the increase would be kept free from any existing lien; and stated that the German and Austrian Governments had already assented to the increase.

Euphrates Valley
Railway.
Sir G. Lowther,
No. 375, May 25,
1909.

At the same time a despatch was received from Sir G. Lowther, enclosing a report from His Majesty's Consul-General at Bagdad, in which the latter advocated, as the most important desideratum of British policy in Mesopotamia and the adjacent regions, the acquisition of a Concession for a railway directly connecting Bagdad with the Mediterranean at Alexandretta via the Euphrates Valley and Aleppo. Colonel Ramsay pointed out that the financial regeneration of Turkey is dependent on the development of Mesopotamia; that the progress of that region is held back by the deficient means of communication; and that irrigation in Mesopotamia and development of railways must go hand in hand together. Assuming that the Bagdad Railway would some day be built along the *trace* of 1903, and viewing the matter from the purely commercial point of view, Colonel Ramsay argued that a railway in British hands up the Euphrates Valley from Bagdad to the Mediterranean through Aleppo would furnish the best means of protecting British interests in Mesopotamia against foreign competition. The railway from Bagdad to the Persian Gulf he regarded as important, but less important than the line to the Mediterranean. He regarded it as most urgent that the Turkish Government should retain freedom of action and equality of rates for all parties on the Aleppo-Alexandretta section, pointing out that if the German Bagdad Railway Company were to secure control of this section they could, by imposing maximum rates on goods reaching Aleppo via the Euphrates line, nullify all the advantage the latter would obtain over the Bagdad line by means of its shorter length. On this point Sir G. Lowther in his covering despatch, wrote:—

"I am not convinced that this apprehension is well grounded. The German Company possesses its preference for the line connecting Aleppo with the sea only on condition that the prior similar rights of the Damascus-Hamah-Biredjik Railway are respected (see Young's 'Corps de Droit Ottoman,' vol. iv, pp. 166-7 and 228). Now, supposing the French Company is willing to cede its right, it seems to me certain that whatever other conditions they may attach to the Agreement, they would certainly stipulate for favourable treatment in tariff matters for themselves, and in such case it is hard to conceive that the Turkish Government would not insist on equally favourable treatment for any railway starting from Aleppo for which they might grant a Concession. Thus, though no doubt serious, I doubt whether the competition of the Bagdad Railway would be as formidable as Colonel Ramsay anticipates, especially when the advantage which the Euphrates Valley line would possess in its shorter route is taken into account."

Sir G. Lowther, however, recognized how desirable it was that the Aleppo-Alexandretta section should be in more friendly hands than those of the Bagdad Railway Company, and he also pointed to the fact that the French houses interested in Turkish railways do not always adopt the policy advocated by the French Government.

There were thus three alternative schemes towards the attainments of which His Majesty's Government might turn their endeavours:—

1. Participation in the existing Concession in such a manner as to secure to Great Britain the construction and control of the Gulf section of the railway up to Bagdad, and if possible further north to Mosul.

2. The construction of a railway from the Persian Gulf to Bagdad via the Tigris, if necessary in competition with the German line; with the option of extending the railway up the Euphrates Valley to the Mediterranean Sea.

3. The scheme advocated by Colonel Ramsay, which was really an inversion of 2, viz., the construction of a railway from Alexandretta to Aleppo, and by the Euphrates River to Bagdad; with the possibility of extending it southwards to the Persian Gulf as a matter of less urgent importance.

The Mesopotamian Railways Committee was assembled to consider these alternative proposals, and their Report, dated the 24th July, is annexed to this Memorandum.* The following extract shows the procedure which they recommended:—

Mesopotamian
Railways Com-
mittee Report,
July 24, 1909.

"After careful consideration, we recommend that the Turkish Government should be approached for—

"(i.) A Concession for a railway between the Persian Gulf and Bagdad via Bussorah and the Tigris Valley, in competition, *should that be found necessary*, with the present German Concession; the British Concession to be without any financial guarantee from the Turkish Government, and the concessionnaires to have the first option of prolonging the railway subsequently along the Euphrates Valley to the Mediterranean, should the development of irrigation and trade render such a course desirable.

"(ii.) An undertaking that, in the event of a group of British financiers, formed with Government approval, being able to come to terms with the present German concessionnaires for participation in the existing Concession by the construction and control of the Bussorah-Bagdad section, the Turkish Government would abrogate in their favour Article 29 of the Concession, which prohibits any construction or working of the section southward of Bagdad until the railway has reached that city from the north. The Turkish Government should be requested to undertake, at the same time, not to abrogate Article 29 under any circumstances other than those specified above.

"We recommend that these proposals should be put before the Turkish Government as soon as possible, and before any reply is given as to the desired increase of customs duties; but that the two matters should be kept distinct, a favourable reply from the Turkish Government in regard to the railway proposals not being made pre-requisite to the sanction by His Majesty's Government of the increase of duties."

The proposal to dissociate the question of Railway Concessions from that of the customs increase could not be accepted without careful consideration. It was not easy to see how the construction of the Bagdad Railway without British participation could be guarded against unless advantage were taken of such opportunities as the increase of the customs duties might offer for making conditions. Even if the proceeds of the increase were not devoted to kilometric guarantees, might they not serve merely to release other revenues for that purpose?

In favour of the proposal it could be urged that to connect the customs increase with the demand for a Railway Concession would be dangerous unless His Majesty's Government were prepared to insist to the last upon the Concession being granted. By such insistence His Majesty's Government might be placed in an invidious position, and be made to bear the odium of refusing to the new régime in Turkey, for selfish reasons, the means by which the country hoped to regenerate the national finances. On the other hand, if His Majesty's Government were to dissociate the two matters, and, while accepting the customs increase on easy terms, were to offer to build the Bagdad-Gulf Railway without any guarantee, if necessary in competition with the German line, such action would incite the Porte to make endeavours

* Memorandum, July 24, 1909 [27901].

to obtain relief from the onerous conditions of the Railway Convention of 1903, and might at the same time predispose the German Company to admit British participation in their Concession.

To Sir G.
Lowther, No. 245,
August 18, 1909.

It was decided to separate the two questions of customs increase and Railway Concessions, and Sir G. Lowther was instructed to apply to the Turkish Government for a Concession for a railway between Bagdad and the Persian Gulf via Bussorah and the Tigris Valley, the Concession to be without any financial guarantee from the Turkish Government, and the concessionnaires to have the first option of prolonging the railway along the valley of the Euphrates to the Mediterranean, should the development of irrigation and trade render such a course desirable.

Sir G. Lowther,
No. 746, Secret,
September 14,
1909.

After some delay caused by Cabinet changes in Turkey, Sir G. Lowther carried out his instructions in conversation with the Grand Vizier. His Highness expressed himself as personally favourable to the proposal, and said he would confidentially consult his colleagues. He pointed out that the grant of such a Concession would be deeply resented by Germany, and that Turkey would have to rely more than ever on Great Britain to help her out of such difficulties.

Tewfik Pasha,
September 14,
1909.

On the same day the Turkish Ambassador in London communicated to the Secretary of State a Memorandum again pressing His Majesty's Government to assent to the proposed increase of the customs duties. The Memorandum described the urgent necessity under which the Turkish Government found themselves of increasing their revenues and the various schemes of reforms to which those revenues were to be devoted. It also contained the following assurance:—

"Il est bien entendu que les sommes provenant de cette majoration ne seront point affectées à des entreprises dans lesquelles le Gouvernement Impérial se trouve déjà engagé, et notamment au Chemin de Fer de Bagdad."

To Tewfik Pasha,
September 23,
1909.

The Memorandum handed to Tewfik Pasha, in reply, stated clearly the terms on which His Majesty's Government would consent to the proposed increase. These were:—

Customs increase.
Conditions of His
Majesty's
Government's
assent.

1. Removal of restrictions on the borrowing powers of Egypt.
2. With respect to the Bagdad Railway, the following statement was made:—

"His Majesty's Government take note of the undertaking given by the Ottoman Government that, in the event of their assent being given to the levy of an additional 4 per cent. import duty on British trade, the proceeds of this surtax will not be devoted to the Bagdad Railway. They are, however, of opinion that, in order to render this pledge effective, it will be necessary that the Sublime Porte should obtain from the German Government an assurance of their willingness to waive their right to any of the proceeds from the customs increase for the sections of the Bagdad Railway now in course of construction or to be constructed in the future. A confidential communication to His Majesty's Government, that an assurance in this sense had been given by the German Government, would remove one of the principal objections of His Majesty's Government to the proposed increase, and make it clear that the political promise given by the Porte would not subsequently embarrass relations with Germany."

3. If a loan were raised on the proceeds of the increase, at least one-third of it should be placed on the London market, the conditions being equally favourable with those offered elsewhere.

To Sir G.
Lowther, No. 298,
September 23,
1909.

The Secretary of State at the same time made some remarks to the Ambassador on the subject of Concessions in Turkey:—

"I said at the same time that I was anxious to draw his Excellency's serious attention to some other points of considerable importance, in addition to those mentioned in the Memorandum. His Ex-

cellency would recognize that under the old régime British trade and enterprise in Turkey had met with marked hostility on the part of the Palace. Since the institution of the new régime requests for Concessions for railways, for navigation, and for working petroleum had been submitted to the Sublime Porte by His Majesty's Embassy at Constantinople without the imposition of terms which could in any way be regarded as onerous or disadvantageous to Turkey. The Ottoman Government had in this manner an opportunity of repairing the injustice inflicted on British trade in the past, and, in view of the support which His Majesty's Government had given to the new régime from the very first, and especially during the crisis of the past winter, they hoped that this opportunity would not be lost, and that the Ottoman Government would now be able to grant some reciprocity of treatment. I added that the adoption by the Porte of a favourable attitude towards these matters would have considerable influence with His Majesty's Government in their eventual decision on the question of the 4 per cent. increase."

Sir G. Lowther was authorized to discuss the question of the customs duties on the lines of the Memorandum and of the verbal statement made to the Turkish Ambassador.

Meanwhile there were signs that the Turkish Government had been impressed by the British application to build an independent railway from the Persian Gulf to Bagdad. The Grand Vizier complained of the expense of the Bagdad Railway to the Turkish Exchequer, and talked of having only a narrow-gauge line built. He expressed himself in favour of an arrangement being come to between the Germans and the English for the construction of the remaining sections, and said he had instructed Mahmoud Shefket Pasha to approach the German Ambassador on the subject. M. Isvolsky at a later date communicated to Sir A. Nicolson some information he had received, to the effect that Hilmi Pasha had really not been favourably impressed by the British project, though he admitted that it would probably be pleasing to the Turkish Parliament, in view of the fact that no guarantees were required. He had, in order to block an exclusively British project, suggested to the German Ambassador whether the German Railway Company would not be disposed to form a combination for the last section of the railway with French and English concessionnaires. Baron Marschall said that he had no objection to such a combination, provided that no further difficulties were raised in regard to the Boulgourlou-Hilif section. He would be prepared in such circumstances to recommend the combination which Hilmi Pasha suggested.

Sir G. Lowther,
No. 839,
October 11, 1909

Sir A. Nicolson,
No. 610,
November 16,
1909.

In October Sir W. Willcocks arrived in Constantinople from Mesopotamia, and, in an official report to the Minister of Public Works, advocated in the strongest terms the construction of a railway from Bagdad to Hit, Damascus, and Tripoli as the best means of developing Mesopotamia. On reaching London later on he explained his views and reasons for advocating the Hit line to Sir C. Hardinge, and, though His Majesty's Government saw no reason to alter the attitude they had adopted in the matter two months earlier, it is possible that Sir W. Willcocks' strong support of this project may have disposed the Bagdad Railway Company to British participation by presenting to them the possibility that His Majesty's Government might be compelled to throw their whole weight into the Hit line.

Sir G. Lowther,
No. 849,
October 15, 1909.

While in Constantinople, Sir W. Willcocks informed the Turkish Government in writing that the irrigation works proposed in Mesopotamia might in five or ten years' time have the result of making the Euphrates and Tigris rivers non-navigable. This statement had a serious effect on the Lynch negotiations then pending, and the possibility contemplated made it the more urgent for His Majesty's Government to secure adequate participation in the railway schemes of Mesopotamia.

Mr. Marling,
No. 348,
Telegraphic,
November 2,
1909.

Lynch Conces-
sion.

On the 31st October the Grand Vizier informed His Majesty's Chargé d'Affaires that the Germans were willing to admit British participation "on the basis of equality of representation on the Board," and a week later

Mr. Marling,
No. 346,
Telegraphic,
October 31, 1909.

Mr. Marling,
No. 351,
Telegraphic,
November 5,
1909.

Mr. Marling,
No. 893,
November 9,
1909.

Sir E. Cassel,
December 20,
1909.

Dr. Gwinner approached Sir H. Babington Smith, stating that his Company would welcome British co-operation on the basis of British control, and construction of the Gulf section.

At Dr. Gwinner's request, Mr. Whittall proceeded to London to try to induce Sir E. Cassel to come to some arrangement with the German Company, and Sir H. Babington Smith had a conversation with Dr. Gwinner, in which the latter stated that he was prepared to agree that the Bagdad-Persian Gulf section of the railway should be under British control. The precise nature of Dr. Gwinner's offer was not known to His Majesty's Government till the end of the year, when Sir E. Cassel, after interviews with him at Berlin, communicated a Memorandum stating the conditions on which the Bagdad Railway Company would admit of British participation in the enterprise. Dr. Gwinner's proposals were essentially as follows:—

1. That the provisions of the existing Bagdad Railway should be maintained practically unaltered.
2. That a new Company, in which Great Britain should have a 50 per cent. interest, should be formed for the construction and working of the Gulf section. An interest of 30 per cent. was reserved for the Bagdad Railway Company, 10 per cent. for the Anatolian Railway Company, and 10 per cent. for the Turkish Government.
3. That out of the construction loans attaching to the Gulf section, a sum representing 2,000*l.* per kilom. should be ceded to the parent Company.
4. That the consent of the Turkish Government be obtained to the arrangement.

Dr. Gwinner stated that it was the wish of the Grand Vizier that British participation should not exceed 50 per cent., and that the Bagdad Railway Company would not object to Great Britain having a preponderating influence. He also said that he had verbally informed the Turkish Government that his Company would not insist on the application of the proceeds of the 4 per cent. increase to kilometric guarantees beyond series 2 and 3 (*i.e.*, as far as Hilif).

Negotiations with Germany, Russia, and France.

Germany.

To Sir E. Goschen,
No. 266,
October 28, 1909.

No negotiations have taken place with the German Government during 1909 about British participation in the Bagdad Railway; but in a discussion of the general relations of Germany and England the Secretary of State took the opportunity of explaining to the German Ambassador why His Majesty's Government were unable to assent to the increase of the Turkish customs duties without a promise that the proceeds would not be devoted to the Bagdad Railway.

"About one-third of the increase of the duties would fall on British commerce, and this in itself would be much disliked. But if the money thus secured at the expense of British trade was to be used to make a new through-route to the East and to establish means of communication which would supersede all others in carrying trade from the Persian Gulf into Mesopotamia, and all this under the exclusive control of one foreign Power, then the position of a British Government which had agreed to this would become untenable. It was therefore impossible for us to agree to the increase of the Turkish customs duties unless we had proper safeguards against the use of the additional revenue for the purpose of displacing British trade in Mesopotamia. We felt that we must either have a part in the Bagdad Railway itself, or else we must have a Concession which would enable us to establish other means of communication by which we could trade with Mesopotamia on equal terms.

"I told Count Metternich that my object in giving these explanations

to the German Government was to prove to them that our action was not dictated by ill-will to Germany, but by the necessities of the case, and that the attitude we were obliged to take up with regard to the increase of the Turkish customs duties was not an attitude taken up behind the back of the German Government in a way to cause irritation and introduce friction into what we hoped would be a friendly discussion."

The Secretary of State pointed out that one of the difficulties in the way of a settlement was, that Russian as well as French co-operation must be invited.

"As regards Russia, the position was this: We had on previous occasions been instrumental, or been supposed to be instrumental, in defeating the Russian plans for securing outlets on the sea, first in the case of the Mediterranean, and then in the case of the Far East; this had caused much ill-will in Russia towards us. Now we had succeeded in overcoming this ill-will, and I was very anxious not to revive it as regards the one remaining outlet which Russia was thought to desire—the Persian Gulf—by participating in the Bagdad Railway, when Russia was opposed to it and excluded from it. I had told the Russian Government more than once that I thought they ought not to oppose, in principle, the construction of the Bagdad Railway, but ought instead to make up their minds as to the terms on which they could join in the project. I did not think it would be impossible for the German Government to overcome this difficulty of Russian opposition; indeed, I knew that before the visit of the German Emperor to this country Herr von Schoen had spoken to the Russian Government on the subject."

During Sir E. Cassel's visit to Berlin to meet Dr. Gwinner and discuss a scheme of British participation in the Bagdad Railway, Herr von Schoen referred to the question in conversation with Sir E. Goschen.

Sir E. Goschen,
December 15,
1909.

"He said that he would speak to me quite frankly and loyally upon this subject. It was quite possible that Sir E. Cassel and Herr Gwinner might come to a satisfactory agreement, as far as the commercial interests involved in the question was concerned, but, as he would have me to understand, it did not follow that the Imperial Government would see their way to confirming such an Agreement, at all events at once. He did not wish me to think that the Government had any objection to British participation, because that was by no means the case. But public opinion in Germany would be up in arms and make things very unpleasant for the Imperial Government unless the latter could show that there was some return for what they would certainly regard as a Concession. The so-called Lynch monopoly would add fuel to the flame, and there would certainly be a universal cry that German interests were being sacrificed with nothing to show on the credit side of the account."

In replying to this despatch, His Majesty's Government took strong exception to some of the views expressed by Herr von Schoen. Sir E. Goschen was instructed to point out that the advances in the matter of British participation had proceeded from the German side, and that—

To Sir E.
Goschen, No. 7,
January 10, 1910.

"the suggestion that the German Government regard British participation in the light of a Concession, and that some *quid pro quo* will be required from the British Government in return, in order to make the arrangement acceptable to the German people, is one which His Majesty's Government cannot entertain.

"His Majesty's Government consider that any advantages which may accrue to them from participation in the railway will be more than equally shared by Germany, especially when it is remembered that the consent of His Majesty's Government to the increase of the Turkish customs duties by 4 per cent. would follow upon the

conclusion of an Agreement, thus imposing for the advantage of the Bagdad Railway, which has a lien upon the customs revenue, an additional burden upon the foreign trade of Turkey, of which such a large proportion is British.

"It is also to be observed that the contemplated participation of British interests in the Bagdad Railway is not an advantage additional to the Lynch Concession, but may possibly impair that Concession, and at any rate will be in the same region. Even if the new Lynch Concession were granted and a participation of British interests in the Bagdad Railway admitted, Great Britain would only have a controlling interest in means of communication in which this country has for a long time had a vested interest through the Lynch steamers. Nothing more will have been accomplished than what will have been essential to prevent that long-established interest from being crushed out by new developments."

Russia.

On the 15th November the Report of Sir H. Babington Smith's conversation with Dr. Gwinner was received in London, and on the 18th November His Majesty's Ambassador at St. Petersburg was instructed by telegraph to communicate its substance to the Russian Government, and to ascertain their views as to participation in the Bagdad Railway. In the telegraphic correspondence which now ensued the action and views of His Majesty's Government were made clear to M. Isvolsky. He was informed that no negotiations had as yet proceeded with the German Government, and that nothing but unofficial conversations between German and British financial groups had taken place; that the German Ambassador in London had been told that in any agreement over the Bagdad Railway French and Russian co-operation must be invited; that the control of the Gulf section was the minimum which His Majesty's Government could accept in any settlement, and the acquirement of that minimum was rendered the more pressing by the possibility that irrigation would destroy the navigable character of the Tigris and Euphrates Rivers. M. Isvolsky was informed that the British group had pressed to have control of the Khanikin branch as well, but that His Majesty's Government had considered Russian interests involved, and had refrained from supporting the proposal. It was obvious that the Bagdad Railway would be built, with or without British and Russian co-operation, and a decision was urgent; meanwhile, His Majesty's Government were in ignorance of Russia's views as to participation. Though His Majesty's Government would certainly raise no objection to negotiations between Russia and Germany as to participation in the railway north of Bagdad, they trusted the Russian Government would keep them informed of their progress, and they could not remain indifferent if any Concessions were made by Russia to Germany in the neutral zone of Persia.

M. Isvolsky's first impression was distinctly unfavourable, but he was brought to recognize the loyalty of His Majesty's Government in the matter, and to view the matter in a calmer and more rational spirit. On the 28th November Sir A. Nicolson wrote as follows:—

"His present attitude may be summarized as follows: He considers that the proposals of M. Gwinner constitute an entirely new departure; he does not question the right of the British group or of His Majesty's Government to accept them, and he expects that eventually they will do so; he fully appreciates the loyalty of His Majesty's Government in so promptly informing him of the proposals, and of abstaining from accepting immediately proposals which are so eminently satisfactory to British interests. He regards an arrangement between England and Germany on the basis of the proposals of M. Gwinner as dispelling any expectation that the Bagdad Railway will be discussed between Germany, England, France, and Russia. It will necessarily amount to an arrangement between Germany and England, by which the latter

will secure for herself the southern section, and in return abandon all interest in the line to the north of Bagdad. In these circumstances he considers that Russia will be left alone to discuss matters with Germany so far as Russian interests are concerned. These interests he regards, from the political, strategical, and economical points of view, as of great importance; and he is of opinion that Russia will enter into negotiations with her hands much weakened. Had he been able to have the continuation of British co-operation in these negotiations he would be more hopeful of their success. France, he considers, is already in a sense a partner in the Bagdad Railway, and, moreover, her interests in the project are small in comparison with those of Russia. He has at present, so far as I have been able to ascertain, no definite views as to the basis on which he would endeavour to obtain a Russian participation in the railway. I do not think that he so much desires an actual participation in the railway; he rather wishes to assure himself that Germany will not endeavour to push railway enterprise in those portions of Persia in which Russia possesses direct and immediate interests. In what manner he may secure such assurances he is not at present very clear, but he is well aware that in order to do so he will probably be obliged to offer Germany a *quid pro quo*. Of what character such a *quid pro quo* will be he does not know, nor is he decided as to the quarter in which he could find it. I do not think that he would consider himself precluded from seeking it in the neutral zone of Persia, but he will keep His Majesty's Government informed of the progress of his negotiations with Germany whenever they may be commenced. Personally, I doubt if M. Isvolsky would be inclined to admit Germany into the neutral zone of Persia."

M. Isvolsky's policy with regard to the Bagdad Railway has always been a negative one; and it is easy to understand how difficult it must be for him to state in what manner the Russian Government would participate in a railway the construction of which they would prefer to see indefinitely postponed. The reply of the Russian Government to Sir A. Nicolson's inquiries as to their views brought matters no further forward. It did, however, contain assurances that His Majesty's Government would be kept informed of the course of negotiations with Germany, and that the Anglo-Russian Convention with regard to Persia would be strictly observed.

Unable to formulate any scheme providing for Russian participation in the railway, and fearing that a settlement of the Bagdad Railway question in which Russia received nothing would react unfavourably on the national prestige, on his own position, and on the Anglo-Russian *entente*, M. Isvolsky expressed the desire to come to some understanding with His Majesty's Government over railways in Persia, providing for the possibility of linking up the Russian and Indian railway systems, or at any rate, for earmarking Concessions for railways with that object. His views on this point, however, have not yet been fully developed, and the idea is still being examined by the British and Indian Governments.

The position at the end of the year and the course of action which His Majesty's Government contemplated adopting was stated in telegrams to Sir F. Bertie and Sir A. Nicolson as follows:—

"As far as we are concerned, position is as follows: Gwinner's overtures led to negotiations with Cassel, which may result, but have not yet resulted definitely, in an offer to British financiers of assured control of construction and working of railway from Bagdad to Gulf.

"When financiers agree, His Majesty's Government will have to consider whether arrangement proposed would justify them in agreeing to increase of Turkish customs dues without condition. I should then let French and Russian Governments know what the agreement between financiers was and what was our opinion of it before taking any step. It would then be for French and Russian Governments to let us know what conditions as regards Bagdad Railway

To Sir A. Nicolson, No. 1334, Telegraphic, November 18, 1909.

To Sir A. Nicolson, No. 1340, Telegraphic, November 23; No. 1343, Telegraphic, November 26, 1909.

Sir A. Nicolson, No. 494, Telegraphic, November 19; No. 495, Telegraphic, November 24; No. 497, Telegraphic, November 30, 1909.

Sir A. Nicolson, No. 628, November 28, 1909.

Sir A. Nicolson, No. 677, December 27, 1909.

Sir A. Nicolson, No. 632, December 1, 1909.

To Sir F. Bertie, No. 743, Telegraphic, December 30, 1909.

would ensure their consent to increase of Turkish customs dues, so that we may all act together.

"Questions of internationalisation and of any Concession of parts of railway north of Bagdad have not come at all into negotiations between British and German financiers, and we should await views of French and Russian Governments as to how these points should be dealt with before raising them. Essential point for us is to ensure that railway from Bagdad to Gulf does not pass into foreign hands, though British financiers had expressed to me desire to secure interest in Khanikin branch also.

"Assuming that terms agreed between Cassel and Gwinner are found satisfactory by His Majesty's Government on this point, it would still remain to be ascertained whether German and Turkish Governments would agree about them. No negotiations have as yet taken place between us and German Government about Gwinner's proposals, and we assume only that German Government know of them."

France.

The French Government were kept fully informed of all the negotiations which passed with Russia, and the views and intentions of His Majesty's Government as explained to M. Isvolsky were all communicated to them. From the first M. Pichon expressed himself as well satisfied at the prospects of a settlement which Dr. Gwinner's action presented. He informed Sir F. Bertie that he fully recognized the necessity for Great Britain to secure her political and commercial interests in the Persian Gulf by acquiring control of the southern section of the railway, but that French public opinion would certainly require that France should receive some *quid pro quo* for her consent to such an arrangement, and that he would study what form of compensation would be most suitable.

On the 27th December M. Pichon took an opportunity to explain to the French Chamber the attitude of the French Government. A deputy (M. Constant) quoted the words of M. Delcassé in 1902: "If a solution had been found in virtue of which the Russian element would be at complete liberty to participate in the enterprise, and by virtue of which the French element would possess, as regards the construction, working, and general direction of the line, a share in all respects equal to that of the most favoured nation, I ask the House whether a solution of this kind would not be one upon which we should have reason to congratulate ourselves." Asked by M. Constant whether he would associate himself with this statement, M. Pichon immediately replied, "Certainly; I make these declarations my own, and I include the British as well as the Russians." He went on to say that the French Government always had been and still were in favour of internationalising the Bagdad Railway; that the recent formation of a syndicate in Switzerland to continue the construction of the railway beyond Boulgourlou as well as the participation of the Ottoman Bank in the enterprise was without the sanction of the French Government, who looked for a settlement of the whole question on the basis of an equitable co-operation of the various States concerned.

On the 13th January the French Ambassador, who had had conversations with M. Pichon in Paris, communicated the views of the French Government as to participation. M. Pichon foresaw that there would be great difficulty in obtaining Turkish assent to British control of the Gulf section of the Bagdad Railway, and was therefore in favour of internationalisation of the whole line. He realised, however, that this scheme offered but few attractions to His Majesty's Government, and in the event of their adhering to the present project, he had decided that the French Government would demand—

1. Facilities for the junction of the Syrian Railway with the Bagdad Railway.

Sir F. Bertie,
No. 455,
November 20,
1909.
Sir F. Bertie,
No. 470,
December 1, 1909.

"Times,"
December 29,
1909 [47321].

To Sir F. Bertie,
No. 38,
January 22, 1910

2. The restitution to the French Syrian Railways of certain rights abandoned by them to the Bagdad Railway Company.

3. A Concession for the railway from Bagdad to Homs and the Mediterranean; this demand to be absolutely essential.

The Ambassador also said that an Anglo-French group, including Sir E. Cassel, was being formed to finance irrigation in Mesopotamia, and that it was proposed that British and French capital should finance the Bagdad-Homs line.

Foreign Office, January 28, 1910.

[5227]

No. 12.

Sir H. Babington Smith to Sir C. Hardinge.—(Received February 14.)

Dear Hardinge,

Constantinople, February 8, 1910.

I HAVE waited to write to you about the Bagdad Railway and other matters until I had time to take stock of the situation here.

There is considerable sensitiveness here regarding any proposal for internationalising the Bagdad Railway, not by participation throughout, but by what the Turks are inclined to regard as a division into "spheres of influence." This sensitiveness has become very acute in connection with the Lynch affair, the opponents of that scheme having made great play with the argument of British designs on Mesopotamia. It will subside, but it could easily be stirred up again, and the exaggerated chauvinism of the new régime is a fact which we must take into account.

I discussed the matter confidentially with Djavid Bey immediately after my return. He said that, having regard to the feeling which had been excited, it was not the moment to bring forward any proposal for British participation in the Bagdad-Gulf section, and while he did not absolutely exclude the possibility of British participation in this section only, he expressed a decided preference for a scheme under which the participation should be extended to the whole line.

I had also some conversation with Nazim Pasha, who is about to go to Bagdad as vali. He expressed much the same opinion.

It is clear, therefore, that even if the other aspects of the matter presented no difficulties, the time has not arrived for pressing it on here. It is necessary to wait for a suitable opportunity.

In the meanwhile our engineer, Mr. Money, has left for Konia, Aleppo and Bagdad whence he will go to Bussorah and Koweit. When he has traversed the proposed route of the line we shall have at our disposal a more accurate estimate of the probable cost of construction. Such an estimate is a necessary preliminary for any arrangement.

In my last conversation with you before I left London you told me that Sir Edward Grey was not inclined to support a scheme which would involve our taking over the kilometric guarantees provided in the existing convention of the Bagdad Railway.

We are all agreed that the arrangement of the convention is a bad one; but it exists, and the question is whether it is practicable to carry through a negotiation involving a complete modification of the system of guarantees.

The position of the Germans is strong. They have a convention which the Turks cannot repudiate, and under which they will be compelled sooner or later to find the revenues for the guarantee of the whole of the line. It is true that no definite period is fixed, and that the Turks are adepts in the art of delay, but the Germans can afford to wait. Revenues have been assigned to provide for the next four sections, and the construction of these sections will take perhaps six years. Before the end of six years the Germans are certain to have opportunities of bringing pressure to bear, or of offering inducements. They have also behind them the fact that the military party here are anxious to see a broad gauge, high speed line carried through to Bagdad and the Gulf. The Germans therefore have no great reason to be dissatisfied with the prospect for the future, and will certainly not give up their present strong position except for a suitable inducement.

You know the position under the existing contract. It is very favourable to the Bagdad Company as regard the amount provided for construction. The cash product of the bonds provided to meet the construction cost is about 8,500*l.* per kilometre. This

is a large sum, but not so excessive as has often been represented, because (1) the type of line required under the concession is a very solid and expensive one; (2) in certain sections there is heavy and costly engineering work; (3) the company has to pay interest on capital during construction.

On the other hand, the arrangement as regards the guarantee for the working of the line and the division of the traffic receipts between the Government and the company is unfavourable to the company. The Government guarantees an annual receipt of 4,500 fr. per kilometre, but if the traffic receipts exceed this sum, the whole of the surplus up to 10,000 fr. per kilometre goes to the Government, and the company receives nothing more until that sum is exceeded. Any receipts above that amount are divided in the proportion of 40 per cent. to the company and 60 per cent. to the Government. This means that the company has precisely the same sum to meet the working expenses, whatever the traffic receipts may be, so long as the receipts do not exceed 10,000 fr. per kilometre, and that out of the receipts above that sum, the company receives only 40 per cent., a proportion insufficient to meet the additional cost of the additional traffic. The Germans admit the perversity of the arrangement, and say that, in order to meet the future charge arising from it, they propose to put aside as a reserve a sum of 2,000l. per kilometre from the margin on the construction of the easy sections.

What, then, are the objects of the Germans in proposing British co-operation? They probably foresee that if British capital does not participate, British opposition will grow stronger and stronger as the line approaches the Persian Gulf. Such opposition would probably not prevent the ultimate completion of the line, but it would delay it. In the second place, they wish to secure for their guarantee the proposed addition to the customs duties, and consequently they are anxious that there should not be any condition which would exclude this. Thirdly, they would not be sorry to obtain the assistance of Paris and London in issuing the bonds. Fourthly, looking further into the future, they perhaps think that British co-operation would facilitate the use of the line for Indian mails and passengers.

With these advantages in view they agree to cede to British capital a preponderating interest in the Persian Gulf section, provided that arrangements are made for them to retain the 2,000l. a kilometre on which they count. On the other hand, they are unwilling to contemplate any modification in the terms of the concession, even if the modification were such as to leave their prospective profits untouched, since they are of opinion that any negotiation of the kind would be very difficult to carry through in the present state of affairs, and might endanger the concession in general. Cassel brought away from his conversations at Berlin the strong impression that they would not listen to a proposal involving a general modification of the convention, and that the only practicable course was to accept substantially the terms they offered.

The objection which Sir Edward Grey sees to this proposal is that it would involve accepting the kilometric guarantees, and that this would expose the Government to the charge of inconsistency, and to damaging criticisms in the press and in Parliament.

As regards the system of the guarantees under the Bagdad convention, the criticisms which have been made apply specially to the working guarantee. This might with great advantage be modified, and it is worth considering whether we might not dispense with the working guarantee altogether, if the division of the traffic receipts were arranged on a rational basis. I do not at present put this forward as more than a suggestion for consideration. Mr. Money's investigations will give us the materials for judging whether it is practicable.

As regards the construction guarantee, the system is not open to the same criticisms. It merely amounts to a guarantee of interest and sinking fund on the estimated cost of construction, given in the form of bonds. The criticism is that the amount allowed for construction is exaggerated. This may be true, if the easy sections are considered separately and if the 8,500l. remains intact; but if the 2,000l. per kilometre is deducted from the 8,500l., the remainder (6,500l.) will probably not leave an excessive margin. Here, again, Mr. Money's reports will give us a more accurate basis; but taking into consideration the gauge and the substantial nature of the line, the provision of rolling stock, the cost of terminal arrangements at Bagdad, Bussorah, and Koweit, and of one or more bridges over the Euphrates, and, finally, the payment of interest during construction, the cost cannot be low. Dr. von Gwinner has given the actual construction cost of the Konia-Eregli section (a very easy one, with no big bridges) as 5,000l. per kilometre, without interest, during construction.

In any case, it cannot be expected that British capital will take the matter up without a reasonable prospect of profit, and, if it is a condition of obtaining control of the Bagdad-Gulf section, that 2,000l. per kilometre should be assigned to the Germans, there is not much room for reduction in the amount of the guarantee. It has been suggested that the British Government might give a guarantee, but the Turks would have the strongest objection to this, and would far rather pay the guarantee themselves. If, therefore, the Government regard it as an object of great importance to obtain control of the Gulf section, it may be inevitable to take the only course open for arriving at this end, even though it should lead to some criticism. If we could start with a clean slate the case might be different, but we have to start from things as they are, with the Germans in the position of *beati possidentes*.

The position is further complicated now by the question of irrigation in Mesopotamia and the Bagdad-Damascus Railway, which has been proposed by Sir William Wilcocks.

Wilcocks's irrigation schemes require large sums of money. The Ottoman Government will not be able to find these sums out of their ordinary budget. If the schemes are successful there will be a large return to the Government in tithes and other taxes, and perhaps from the sale of irrigated lands. It was evident that there was an opportunity here for foreign capital to assist the Government in carrying out remunerative works, and that it was desirable that British capital should take a leading part in it.

You are aware that when Cassel was in Paris before Christmas he had some conversation on the subject with Bardac, who is in close alliance with the Ottoman Bank. A general understanding resulted, that there should be co-operation between the English and French group as regards Mesopotamian irrigation. There was no detailed agreement, and no discussion of any actual scheme. Cassel's view was that it was necessary to obtain further information, and to have the opinions of other experts on Wilcocks's projects before they could form the basis of a financial arrangement. With this object we have retained the services of Webb and Garstin, and Webb will go to Mesopotamia this spring. Our idea of the procedure to be followed was that when this information was obtained, the time would have arrived for discussing a concrete scheme with the French group and with the Government.

The French group have, however, gone ahead. They have been carrying on negotiations here through Mr. Ornstein. When I left Constantinople in December their proposals appeared very vague and indefinite; but in the last few days Mr. Ornstein has laid before the Government three draft conventions, indicating the terms on which they are prepared to find money for the irrigation schemes and the Bagdad-Homs Railway. I have given copies of these documents to the Ambassador. The general idea of the proposals is that the money for the irrigation schemes and the railway is to be provided by means of Government bonds, which the financial group undertakes to issue. The tithes, &c., of the irrigated lands are to provide the interest on these bonds, and the capital is to be repaid out of the proceeds of the sale of Government lands. It is probably intended that the Government should guarantee interest on the bonds and any deficit on the working of the railway; but the drafts carefully refrain from specifying what is to happen if the revenues from the irrigated lands do not suffice for these purposes. Any profit from the railway and the surplus receipts from the sales of land are to be divided between the Government and those who provide the money. The financial interests are to have a voice in the control of the undertaking generally.

It may appear strange that the Ottoman Bank should put forward a railway scheme which must obviously be hostile to the Bagdad Railway, in which they have a substantial share. But the French participation has never been recognised by the French Government, and the Bagdad-Homs line would be in the interest of the French railways in Syria. What view the French Government take, I do not know; but presumably the Ottoman Bank have not put forward the scheme without the approval of their Government.

In any case, the linking of the railway scheme with the irrigation proposals is somewhat embarrassing as far as we are concerned, having regard to the provisional understanding between Cassel and Gwinner.

It is also necessary for us to consider whether we should come to any more definite arrangements with the French group now, or whether we should endeavour to induce them to hold back the negotiations until the further information which we regard as necessary has been obtained.

I must apologise for the length of this letter, but I thought it might be convenient to you if I gave a full statement of the position as it strikes me.

Yours sincerely,

H. BABINGTON SMITH.

[5156]

No. 13.

Sir G. Louther to Sir Edward Grey.—(Received February 14.)

(No. 74. Very Confidential.)

Sir,

Constantinople, February 9, 1910.

I HAVE the honour to transmit to you herewith a copy of the proposals put forward by what I believe to be known as the Bardac group, through the intermediary of M. Ornstein, to the Turkish Minister of Public Works, for the irrigation of Mesopotamia and for the continuation of the railway, which would be a valuable concomitant of the irrigation works.

I understand from M. Ornstein that his group is prepared to work with Sir E. Cassel, though no conditions have until now been arranged as to the participation in it.

I have, &c.

GERARD LOWTHER.

Enclosure in No. 13.

Proposals respecting Mesopotamian Irrigation.

Note.

LES diverses conventions que le groupe financier soumet à la haute approbation du Gouvernement ottoman se rattachent à un projet d'ensemble, dont elles doivent avoir pour effet d'assurer l'exécution d'une façon méthodique, rationnelle, et en même temps économique pour l'État.

Ce projet d'ensemble consiste, comme le précise l'exposé des motifs, à restituer à la Mésopotamie son ancienne prospérité, d'une part, en y établissant un système d'irrigation et de canalisation aussi complet que possible, et, d'autre part, en adjoignant aux travaux d'irrigation leur complément nécessaire et indispensable: une ligne ferrée.

La principale préoccupation dont s'est inspiré le groupe financier a consisté à assurer au Gouvernement ottoman le plus large concours de ses capitaux et de ses connaissances techniques, tout en épargnant au budget la charge que de pareils travaux pourraient comporter.

De là cette combinaison financière, qui consiste—

1. En la création d'obligations dont le groupe financier s'engage à faire seul l'émission tout en garantissant leur souscription.
2. En l'affectation à cet emprunt de diverses garanties, qui toutes sont prises en dehors des recettes du budget ordinaire, à savoir, exclusivement le produit de la vente des terres, les dîmes et impôts fonciers des terres rendues à la culture et qui n'existent pas aujourd'hui, le chemin de fer et ses revenus. De là l'obligation—

- (1.) De fixer la durée des travaux et, partant, celle de la période intercalaire.
- (2.) De fixer le principe du lotissement et de la vente des terres.
- (3.) De spécifier qu'elles seront soumises à l'impôt, mais dans un délai compatible avec les exigences de la culture.
- (4.) De poser avec une égale netteté le principe de la construction du chemin de fer.

Or, ce sont là des mesures législatives en ce sens qu'elles nécessiteront l'approbation du Parlement. Des mesures accessoires doivent les compléter: l'une a pour objet la création d'une commission qui centralisera en quelque sorte, sous le contrôle supérieur du Ministère des Travaux Publics, tous les pouvoirs techniques nécessaires pour mener à bien les travaux en Mésopotamie; l'autre a pour objet le relevé exact, le dénombre-

ment, la délimitation, et l'estimation des terres rendues à la culture de façon à permettre la réfection totale et scientifique du cadastre en Mésopotamie.

Les unes et les autres se complètent mutuellement de façon à constituer ce que l'on pourrait appeler le statut organique de cette province.

Il a paru au groupe financier qu'il serait intéressant pour un Gouvernement de présenter aux Chambres un pareil projet formant un tout homogène, et destiné, nous le répétons, à rendre à une partie considérable des territoires de l'Empire une splendeur depuis trop longtemps abolie, sans toucher, si peu que ce soit, aux ressources actuelles du budget.

Dans l'élaboration de ce programme le groupe financier s'est préoccupé de deux choses: rechercher les solutions les plus simples et ne faire appel qu'à des principes de droit public ottoman indiscutés. A cet égard, la législation foncière ottomane relative aux biens du domaine de l'État—qu'il s'agisse des terres mortes ("mévet") ou des biens domaniaux proprement dits ("miri")—a été mise à contribution dans ce projet dans une mesure qui ne peut manquer d'avoir l'approbation du Gouvernement. C'est la loi, en effet, qui de tout temps a posé ce principe que les terres incultes, en friche, ou en jachère, sont présumées appartenir à l'État. C'est encore la loi qui, en obligeant les particuliers à livrer soigneusement à la culture les terres qu'ils ont reçues de l'État, impose directement à celui-ci l'obligation de ne pas laisser incultes les terres de son domaine.

Et c'est enfin une considération à la fois économique et politique qui a conduit le groupe financier à cette idée du partage gratuit d'une vaste étendue de terres entre les populations de la région: considération économique, puisque cette distribution doit être l'amorce de la prospérité future; considération politique, puisque cette distribution tend à faire un peuple sédentaire et satisfait d'un essaim nomade et indocile.

Tel est, en quelques mots, l'esprit du projet qui, portant sur la constitution économique d'une province, doit être soumis à la sanction du Parlement.

Cette base une fois bien établie, le Gouvernement et le Ministre compétent pour lui, chargé par les Chambres de faire exécuter les dispositions qui précèdent, aura tous pouvoirs pour traiter avec le groupe financier. Cette convention fera l'objet du document No. 2, dénommé "Partie conventionnelle": c'est la partie financière proprement dite du programme.

Les travaux d'irrigation et le chemin de fer devant nécessiter une dépense approximative de £ T. 7,000,000, le groupe financier met ces capitaux, à concurrence de cette somme, à la disposition du Gouvernement Impérial.

Il s'engage à les lui fournir à première demande, au fur et à mesure des besoins jusqu'à complète exécution du programme.

Il se met également à la disposition de l'État pour lui permettre, soit de faire face à l'échéance des coupons d'obligations, soit d'aménager ses terres de Mésopotamie, de façon à en rendre le placement et la vente plus facile et plus avantageux.

Pour assurer le service de l'amortissement du capital engagé dans l'affaire, celui des intérêts intercalaires, et, plus tard, celui des coupons, le groupe financier ne demande rien au budget actuel de l'État. Il ne s'adresse qu'à trois sources de revenus qui, toutes les trois, sont inexistantes à l'heure actuelle: les impôts des terres adjour'hui incultes, la vente de ces mêmes terres, les revenus du chemin de fer à créer.

Ces trois sources de garantie, le groupe financier, qui s'engage à faire les fonds des émissions, les accepte comme suffisantes; il se présente, vis-à-vis du Gouvernement, comme une sorte de gérant provisoire ou d'associé, dont les intérêts sont identiques à ceux de l'État; tout se tient en effet dans ce programme; la prospérité de la Mésopotamie, qui est le but final de l'entreprise en est aussi le point de départ; si le pays prospère, les terrains se vendent, les impôts se récoltent, les recettes du chemin de fer croissent progressivement, les garanties accordées aux obligations se fortifient dans la mesure où les ressources de la province augmentent; et l'État reprendra d'autant plus vite la pleine disposition de tous les revenus de cette province que ces revenus lui auront permis plus tôt de rembourser les obligations. L'intérêt de part et d'autre est donc bien identique.

La convention financière le précise par une série de formules où s'est manifestée la volonté de se mettre entièrement à la disposition du Gouvernement Impérial, tout en assurant aux capitalistes les garanties sans lesquelles aucune combinaison ne serait viable.

L'acceptation de ces formules n'est pas du ressort du pouvoir législatif; dans tous les pays constitutionnels, et spécialement en Turquie, il appartient au pouvoir exécutif seulement de régler avec les particuliers l'exécution financière des lois économiques.

Tout ce qu'il est permis de dire, c'est que, dans ce projet de convention, le groupe financier s'est encore préoccupé de ne soumettre au Gouvernement que des combinaisons

ayant déjà reçu la consécration de l'usage, de ne lui avoir rien proposé qui ne fût parfaitement acceptable, et de n'avoir demandé, en échange des services qu'il se déclare prêt à rendre, des capitaux qu'il s'engage à exposer, des risques qu'il s'oblige à courir, qu'une rémunération aléatoire, sous forme d'une participation lointaine des bénéfices qu'il aura créés lui-même.

En ce qui concerne, enfin, le chemin de fer, accessoire obligé des travaux d'irrigation, le groupe financier, délégataire des revenus de la ligne, à concurrence des capitaux exposés par lui, s'offre à assumer la charge de sa construction et de son exploitation, non point comme un concessionnaire, ainsi que les diverses compagnies l'ont pratiqué jusqu'ici, mais toujours comme un gérant d'affaires et comme un associé, au nom et pour le compte du Gouvernement Impérial.

Le groupe financier ne demande pour ce faire le concours d'aucune subvention, ni de garantie kilométrique d'aucune sorte.

Il se soumet aux clauses et conditions des conventions et cahier des charges les plus usuelles.

Tant que l'État restera débiteur du montant des capitaux engagés dans l'œuvre de régénération le groupe financier ne réclame aucune rémunération ni aucun bénéfice; il gère l'affaire pour le bien commun.

Le jour où les charges sont remboursées, si l'État veut exploiter par lui-même, il reprend immédiatement la ligne, qui n'a jamais cessé de lui appartenir, le groupe financier en fait la remise immédiate, puisqu'elle n'a été jusque-là entre ses mains que comme un dépôt. Au contraire, si l'État, ne se souciant pas d'assumer la charge d'une exploitation personnelle, désire s'en remettre à un tiers du soin de cette exploitation, il n'est que juste que le groupe financier en demeure chargé, toujours pour le compte du Gouvernement, et moyennant une rétribution dont la limite reste à fixer entre le Gouvernement et lui.

Constantinople, le , 1910.

Projet de Convention.

(Très Confidentiel.)

Entre son Excellence , comme représentant du Gouvernement Impérial ottoman, et dûment autorisé aux fins des présentes par décision du Conseil des Ministres en date du , et MM. , comme représentants dûment autorisés aux fins des présentes de MM. , et désignés ci-après et par abréviation comme "le groupe financier," il a été exposé ce qui suit :—

Désireux de rendre à la Mésopotamie, province de l'Empire comprise dans le vilayet de Bagdad, sa fertilité d'autrefois par un développement rationnel et rapide de ses richesses agricoles, et soucieux de la tranquillité, du bien-être, et de la prospérité des populations habitant cette contrée, le Gouvernement Impérial ottoman a chargé l'éminent ingénieur, Sir William Willcocks, d'étudier et de lui présenter un projet aussi complet que possible des travaux d'irrigation qu'il sera nécessaire d'exécuter pour réaliser cet objet.

Sir William s'est acquitté de cette mission à l'entière satisfaction du Gouvernement Impérial, et lui a présenté des rapports, études, plans, et devis pour les travaux comprenant la construction d'une série de barrages, réservoirs, déversoirs, et canaux d'alimentation, et dont l'exécution doit pour la régularisation des cours de l'Euphrate et du Tigre, empêcher à tout jamais les débordements de ces fleuves qui dévastaient si ruineusement les riches terres du delta, et rendre à la culture d'une façon permanente une étendue de terrains représentant environ le cinquième de la superficie cultivable de la province. Selon les devis établis par Sir William Willcocks, et qui ont reçu l'approbation du Gouvernement Impérial, ces travaux, d'une importance si capitale, nécessiteront une dépense estimée à £ T. 4,000,000. Les plans, devis, et projets définitifs sont et demeureront annexés à la présente convention (Annexe No. 2).*

Mais si les travaux projetés doivent donner la fertilité à ce territoire déjà considérable, et si, par une succession d'autres travaux d'irrigation, cette fertilité s'étendra un jour à tout le delta de l'Euphrate et du Tigre, il a fallu se préoccuper aussi des moyens d'écoulement des diverses denrées que ces terres produiront, et d'encourager en même temps l'émigration du grand nombre de cultivateurs, ouvriers,

* Not printed.

artisans de tout genre, qui sera la conséquence naturelle de la mise en valeur de ce vaste territoire. Doter la Mésopotamie d'un système d'irrigation qui décuplera, et au delà, sa force de production, serait en vérité un effort stérile si on ne lui fournissait pas simultanément les moyens de transporter rapidement et économiquement ses produits vers les pays d'Europe qui peuvent les lui acheter, de les échanger contre les marchandises de toute nature dont elle aura besoin et provenant de ces pays, et d'y amener le flot de travailleurs qu'une exploitation agricole d'une telle envergure exigera.

Pénétré de la nécessité de créer ces moyens de transport qui font actuellement défaut, Sir William Willcocks a recommandé au Gouvernement Impérial, qui l'a accepté, la construction d'une ligne de chemin de fer à voie normale devant relier Bagdad à la Méditerranée par Hit, El Kaïm, Palmyre, Homs, et Tripoli. Ce tracé, qui développe une longueur totale d'environ 820 kilom., entraînera la dépense la plus réduite, le coût total de la ligne étant estimé à £ T. 3,000,000 environ.

Afin de faire entrer la plus rapidement possible la population tant éprouvée de ces régions dans la jouissance des bienfaits que ce programme laisse si clairement entrevoir, le Gouvernement Impérial s'est sans retard préoccupé de rechercher les voies et moyens les plus appropriés pour son exécution. Il a aussitôt inscrit dans le budget de l'année en cours un premier crédit de £ T. 160,000 pour faire exécuter certains travaux urgents qui doivent enrayer momentanément le mal causé par les débordements périodiques des fleuves. Il a dû cependant reconnaître que les ressources déjà exigües de Trésor ne lui permettaient d'encourir des dépenses aussi considérables qu'à la condition de les échelonner sur un très grand nombre d'années, moyen qui apporterait des retards préjudiciables à une prompt réalisation du programme adopté. Pour toutes les considérations, et après un examen mûrement réfléchi de cette situation, le Gouvernement Impérial a été amené à la conclusion que le puissant groupe financier, qui, de sa propre initiative, est venu lui offrir le concours de ses capitaux et de sa compétence pour l'aider utilement et efficacement dans l'accomplissement de l'œuvre de régénération qu'il s'est imposé et qu'il est fermement décidé de mener à bien.

Le groupe financier, épris de l'idée de rendre à la Mésopotamie la renommée de prospérité et de richesse dont elle jouissait depuis les temps les plus reculés de l'histoire, s'est livré à une étude très approfondie des projets que le Gouvernement Impérial a formé dans ce but.

Il s'est tout d'abord rendu compte que la situation actuelle des finances de l'Empire ne permettrait pas de distraire de ces ressources ordinaires les sommes très importantes que les travaux projetés nécessitent, sans grever lourdement le budget et en compromettre l'équilibre à un moment surtout de son histoire où des réformes urgentes s'imposent à la fois dans presque toutes les branches de l'administration.

D'accord en cela avec le Gouvernement Impérial et reconnaissant avec lui d'autre part que, en se procurant les capitaux nécessaires pour la réalisation du programme par voie d'un emprunt ordinaire, la charge annuelle d'un pareil emprunt retomberait également sur le budget de l'État, le groupe financier s'est préoccupé de rechercher une solution qui répondrait efficacement et complètement aux exigences de la situation et qui en même temps ne constituerait aucune charge nouvelle budgétaire. Il croit avoir trouvé cette solution, et en la soumettant à la considération du Gouvernement Impérial il en expose les grandes lignes de la façon suivante.

Dans le programme qu'il a élaboré et que le Gouvernement Impérial a adopté, Sir William Willcocks estime que les travaux d'irrigation qu'il recommande, et qui doivent coûter £ T. 4,000,000, rendront à la culture un territoire d'une étendue d'environ 1,000,000 d'hectares aujourd'hui déserte, inculte, et sans valeur.

De cette superficie il y aura lieu de distraire environ 500,000 hectares de terre pour être distribués parmi les habitants, pour la plupart nomades, qui les occupent actuellement sans y avoir droit, mais que le Gouvernement Impérial a intérêt à satisfaire. Les 500,000 hectares environ restants, devenus ainsi terres libres de l'État, viendront accroître d'autant son domaine en Mésopotamie.

Quant au revenu que le Gouvernement pourra éventuellement retirer sous forme de dîmes et impôt foncier seulement de cette première section et qui constituera un revenu nouveau, Sir William Willcocks l'évalue à £ T. 750,000 par an, estimation qu'il considère très modérée, étant donné que la même terre en Égypte est frappée d'un impôt d'environ £ E. 2½ par hectare.

Mais après avoir rendu une pareille superficie à l'agriculture, le groupe financier estime qu'il sera indispensable d'en aménager les terres nues en leur fournissant les moyens de devenir productives—canaux d'arrosage, de drainage, bétail, instruments aratoires, semences et main-d'œuvre—ce qui comporterait de nouveau et importants débours de capitaux. Ainsi pour ce qui est des terres à distribuer aux habitants actuels

il faudra nécessairement venir en aide à ceux-ci en leur consentant des avances pour faciliter ces aménagements, et en ce qui concerne le domaine nouvellement constitué de l'État il y aura lieu d'en aménager aussi certaines parties, afin de donner plus de valeur aux terres et amorcer les ventes, car le Gouvernement ne peut exploiter lui-même utilement un domaine de cette étendue, mais a, au contraire, le plus grand intérêt de le lotir et de créer ainsi par des ventes successives la petite propriété, seule capable de faire produire à la terre son maximum de rendement.

Quant au chemin de fer qui doit former le complément naturel des travaux d'irrigation, il est indispensable que sa construction et son exploitation fassent partie de l'ensemble de l'opération et restent sous le contrôle du Gouvernement Impérial. Ce chemin de fer a, en effet, pour but immédiat et principal de transporter les denrées et les travailleurs dans les conditions les plus avantageuses pour l'agriculteur, ce qui pourra l'obliger à abaisser d'une façon parfois sensible ses tarifs de transport et à sacrifier ainsi ses propres intérêts au profit et pour le plus grand avantage de l'agriculture; tandis que l'exploitation confiée à des tiers moins intéressés, puisqu'ils ne jouiront d'aucune garantie gouvernementale, pourrait susciter des difficultés qu'il semble préférable d'éviter.

Mais pour obtenir les résultats qui viennent d'être indiqués et donner de la valeur à une propriété qui n'en possède aucune actuellement, il faut avant tout effectuer les dépenses qui doivent les produire et qui consistent, comme on vient de le voir, en dépenses afférentes aux travaux d'irrigation, à la construction du chemin de fer, et en avances et dépenses pour l'aménagement des terres.

Le groupe financier se déclare prêt à seconder les efforts du Gouvernement Impérial, et à réaliser avec lui ce vaste programme en constituant entre le Gouvernement et le groupe financier une association dans laquelle le premier apporte la propriété qu'il cherche à mettre en valeur, et le second les capitaux et tous les concours qui permettront d'atteindre ce but. Les intérêts des deux parties devenant de cette façon identiques ne pourront à aucun moment se heurter, et l'œuvre ainsi poursuivie en commun sera elle-même la première à ressentir les avantages, car les deux parties auront un égal intérêt à veiller à la bonne exécution des travaux, à la mise en état des terres afin de leur donner la plus grande valeur possible en vue de leur revente et à une exploitation rationnelle et économique du chemin de fer. Les opérations financières nécessitées par ce programme peuvent se résumer de la façon suivante :—

1. Création d'obligations qui seront émises par tranches au fur et à mesure des besoins et dont le placement sera assuré par le groupe financier.

Ces obligations seront garanties par le domaine des terres libres de l'État en Mésopotamie et par le chemin de fer.

Le service de l'intérêt des obligations sera prélevé sur les revenus de la dime et de l'impôt foncier des terres nouvellement rendues à la culture en Mésopotamie, et sur les revenus du chemin de fer.

En cas d'insuffisance de ces revenus, les insuffisances constatées à l'expiration de chaque année seront reportées et prélevées sur le produit des impôts et du chemin de fer des années suivantes.

2. Exploitation du chemin de fer.

3. Opérations d'avances aux cultivateurs pour leur permettre d'aménager les terres dont il seront devenus propriétaires, et remboursables par ceux-ci.

Avances pour l'aménagement d'une partie des terres libres de l'État afin d'en faciliter les ventes.

4. Liquidation du domaine constitué par les terres libres de l'État en Mésopotamie.

Vente de terrains de gré à gré ou aux enchères au fur et à mesure des demandes qui se présenteront. Le produit de ces ventes sera affecté dans des proportions à déterminer au remboursement du capital-obligations qui aura été créé pour les travaux et à celui des avances consenties par la société sur ces propres capitaux pour l'aménagement des terres libres de l'État.

Après les remboursements ci-dessus le surplus du produit des ventes sera partagé entre l'État et le groupe financier, qui y trouvera ainsi la seule rémunération pour les services qu'il aura rendus.

L'exposé ci-dessus des grandes lignes de la solution qui préconise le groupe financier lui semble répondre entièrement aux exigences de la situation qui a préoccupé le Gouvernement Impérial. Elle permet, en effet, de réaliser dans son entier, sans bourse délier et sans grever les ressources ordinaires du budget, la grande œuvre que le Gouvernement s'est imposée, car il obtient, d'une part, l'achèvement rapide de travaux

autrement lents et difficile à exécuter sans le concours assuré des capitaux, et, de l'autre, la régénération d'une vaste contrée qui doit augmenter dans des proportions toujours croissantes, non seulement les revenus de l'État sous forme directe et indirecte, mais aussi et surtout le bien-être et la prospérité d'une population qui n'a pas connu ces bienfaits depuis bien longtemps. Mais en même temps qu'il aura obtenu ces résultats d'ordre économique et financier il aura pu, dans l'ordre politique, par une équitable distribution des terres parmi les habitants aujourd'hui pour la plupart nomades, dissatisfaits et insoumis, transformer ces habitants en un peuple satisfait et reconnaissant qui, en reprenant des habitudes sédentaires, créera des centres de population et rétablira lui-même la tranquillité dont le pays a un si grand besoin.

Pour ce qui est enfin du groupe financier, les garanties de premier ordre qu'il présente légitiment la responsabilité qu'il assume en exposant ses capitaux aux aléas toujours possibles d'une entreprise de cette envergure et de cette longue durée. D'autre part, le groupe financier a affirmé son intention bien arrêtée et sincère de ne rechercher pour lui-même aucune part du profit dans les opérations financières et dans les entreprises de travaux pas plus qu'il n'a de visées d'accaparement de terres ou d'ambitions politiques, à quelque titre et à quelque degré que ce soit.

Le Gouvernement Impérial ottoman ayant reconnu le bien-fondé de l'exposé ci-dessus que lui a soumis le groupe financier et en ayant approuvé les termes et l'esprit,

Il a été arrêté et convenu ce qui suit :—

Première Partie (législative).

Article 1^{er}. Seront mis à exécution, pour le compte du Gouvernement Impérial et à titre de travaux d'utilité publique, les travaux et ouvrages suivants :—

1.—(1.) Réparation du barrage de Hindieh ;

(2.) ;

(3.) ;

ainsi que tous travaux de canalisation, drainage, irrigation, dessèchement, endiguement s'y rattachant, dans les bassins de Tigre et de l'Euphrate.

2. Et en outre, comme complément et accessoire aux dits travaux, une ligne ferrée à voie normale, entre Bagdad et Homs, en passant par Hit, El Kaïm, et Palmyre.

Art. 2. Ces travaux seront commencés sans délai et poursuivis de manière à être achevés dans le délai maximum de _____ ans.

Art. 3. En vue d'en assurer la prompte et complète exécution, il est créé une commission spéciale dite "Commission technique de la Mésopotamie." Cette commission est rattachée au Ministère des Travaux Publics. Elle aura notamment pour attributions : le contrôle des études, plans et devis se rattachant aux travaux et ouvrages visés par l'article 1^{er}, paragraphe 1^{er}; le relevé et la délimitation des terres de toute nature comprises dans la zone d'exécution des dits travaux; le contrôle des dépenses nécessaires à l'exécution de ces travaux; et toutes autres mesures s'y rattachant, le tout sous le contrôle du Ministère des Travaux Publics. Cette commission sera présidée de droit par l'ingénieur en chef chargé par le Gouvernement Impérial de l'exécution des travaux susvisés. Lui seront adjoints : l'ingénieur en chef, du service technique du chemin de fer; un délégué du Ministère des Travaux Publics; un délégué de l'Administration du Cadastre; et deux ou plusieurs autres membres techniques, selon les besoins, lesquels seront choisis par le Ministre des Travaux Publics. Les fonctions de membre de la dite commission seront gratuites. Le mode de fonctionnement de la commission sera déterminé ultérieurement par décret.

Art. 4. Les relevés et états de la dite commission, relatifs à la délimitation des terres dans les bassins du Tigre et de l'Euphrate seront, au fur et à mesure de leur élaboration, envoyés à l'administration compétente, de façon à permettre la réfection totale du cadastre dans la dite région.

Art. 5. Dans toute l'étendue de la zone d'exécution des travaux et ouvrages visés par l'article 1^{er}, paragraphe 1^{er}, la terre, quelle qu'en soit la nature, est réputée de droit propriété de l'État, soit à titre de terre domaniale ("miri"), soit à titre de terre morte ("mévât").

Art. 6. En conséquence, tout particulier ou collectivité qui prétendrait avoir sur une parcelle quelconque des dites terres un droit légal de propriété ("mulk") ou de possession ("houkuk-i-tessaroufié") sera tenu d'avoir, au plus tard, le _____ et ce, sous peine de déchéance, fourni à l'autorité compétente la justification par titre régulier, de son droit de propriété ou de possession. Un décret ultérieur fixera les condi-

tions dans lesquelles la dite preuve devra être administrée par les intéressés. En cas de contestation, le Conseil d'Etat statuera souverainement.

Art. 7. L'entreprise étant d'utilité publique, les carrières, ballastières, et généralement tous terrains nécessaires à l'exécution des travaux et reconnus pour appartenir à des particuliers, seront pris, toutes les fois qu'une entente ne pourra être établie avec les dits propriétaires et possesseurs, et ce conformément à la loi sur l'expropriation.

Art. 8. Des terres rendues à la culture par l'effet des travaux susvisés, le Gouvernement Impérial, à titre exceptionnel et pour marquer un encouragement spécial aux populations de la contrée, pourra attribuer gratuitement la possession, au fur et à mesure des demandes, et jusqu'à concurrence de 500,000 hectares, au maximum, de préférence aux sujets de l'Empire ayant habité les dits terrains depuis années.

Art. 9. Cette distribution aura lieu conformément aux dispositions du Code foncier et aux lois spéciales, et, en outre, dans les délais, formes, et conditions qui seront fixés comme il sera dit à l'article 13 ci-après.

Art. 10. Sont exceptés de cette distribution—

1. Les terrains situés de part et d'autre du chemin de fer ci-dessus mentionné, jusqu'à une distance de kilom. de chaque côté de la voie.

2. Tous les terrains qu'un avis de la Commission technique, approuvé par le Ministre des Travaux Publics, aura désigné comme devant être réservés, de façon que la distribution de ces terres n'apporte pas d'obstacle à tous les travaux d'irrigation ou autres prévus ou à prévoir.

Art. 11. La propriété et la possession des terrains visés à l'article 10 ne pourront être transférés qu'à titre onéreux et conformément aux dispositions ci-après.

Art. 12. Seront par lots, et conformément aux lois en vigueur, vendus en propriété ("mulk") ou en possession ("tessarouf"), affermés, donnés à bail par le Gouvernement à tous amateurs, sujets de l'Empire, et ce sur adjudication aux enchères publiques—

1. Les terres visés à l'article 10 et d'une manière générale tous les terrains rendus à la culture par l'exécution des travaux susmentionnés et non destinés à être distribués conformément à l'article 8 ci-dessus.

2. Les terrains de l'article 8 qui, faute d'amateurs, n'auraient pas été distribués dans le délai de ans.

3. Les terrains distribués en vertu de l'article 8, mais qui viendraient ultérieurement à tomber en déchéance, ou qui, dans le délai de ans, auraient été abandonnés ou laissés incultes par leurs attributaires.

Art. 13. Il sera statué ultérieurement par décret sur les conditions dans lesquelles s'effectueront la distribution des terres aux habitants de même que leur vente ou location.

Art. 14. Les terres nues distribuées conformément à l'article 8, ou transférées conformément à l'article 12, seront soumises aux lois fiscales et foncières de l'Empire, un an après leur distribution ou leur transfert.

Art. 15. Le Ministre des Travaux Publics est chargé de l'exécution des dispositions qui précèdent, lesquelles entreront en vigueur dès leur promulgation.

Deuxième Partie (conventionnelle).

Sur la base des dispositions No. 1 ci-après annexées et en vue d'en assurer la prompte et complète exécution :

Article 1^{er}. M. , représentant MM. , dénommés comme ci-dessus le groupe financier, s'engage à fournir au Gouvernement Impérial ottoman toutes les sommes nécessaires à l'exécution des ouvrages ordonnés par les dispositions ci-dessus, c'est-à-dire, d'une part, les travaux d'irrigation, canalisation, et tous autres s'y rattachant, et d'autre part, la construction du Chemin de Fer de Bagdad à Homs par Hit, El Kaïm, et Palmyre, le dit chemin de fer à voie large, et sans garantie kilométrique. De son côté, le Gouvernement Impérial déclare agréer pleinement et exclusivement le concours du groupe financier susmentionné, pour mener à bien l'exécution des dits travaux et de tous autres s'y rattachant, dans les bassins du Tigre et de l'Euphrate.

Art. 2. En conséquence, le dit groupe financier est autorisé à constituer dans le délai qui sera ci-dessous indiqué, et sous la dénomination de , une société anonyme en vue d'exécuter ses présents engagements.

Art. 3. Cette société aura son siège à . Elle sera soumise, dans

l'exercice de ses opérations, aux lois ottomanes. Elles ressortira de la juridiction ottomane.

Art. 4. Les statuts de la dite société seront présentés à l'homologation mois après la signature du présent acte.

Art. 5. La société devra être constituée au plus tard mois après la dite homologation.

Art. 6. M. X , es qualités, s'engage à déposer le jour de l'homologation des statuts un cautionnement de £ T. en argent ou valeurs ottomanes calculées d'après le cours de la Bourse, entre les mains de la Banque Impériale ottomane à Constantinople, pour le compte du Gouvernement Impérial. Si, les cas de force majeure exceptés, la société n'était pas constituée dans le délai de mois prévu ci-dessus, le cautionnement serait confisqué au profit du Gouvernement Impérial. Par contre, le dit cautionnement sera remis à la disposition de M. X aussitôt que la société sera constituée.

Art. 7. La durée de la société sera de , sauf prorogation conformément à ses statuts.

Art. 8. La société aura pour objet—

1. Toutes opérations financières de nature à permettre au Gouvernement Impérial l'exécution intégrale des travaux susvisés.

2. Toutes avances dont le Gouvernement Impérial pourrait avoir besoin pour l'aménagement, la mise en valeur de la liquidation de son domaine, dans les bassins du Tigre et de l'Euphrate.

3. Toutes opérations de crédit et toutes avances hypothécaires ou autres, à consentir aux particuliers en vue de leur permettre l'acquisition, l'exploitation, l'entretien, la location des terres arables dans la dite contrée.

4. La participation à l'exploitation du chemin de fer, le tout, conformément à ses statuts et en outre, aux conditions qui seront ci-après stipulées.

Art. 9. Le capital nominal de la société ne sera pas inférieur à .

Art. 10. Le groupe financier et la société qu'il s'oblige à constituer comme ci-dessus s'engage à fournir au Gouvernement Impérial les sommes visées en l'article 1^{er} au fur et à mesure des besoins de la construction, jusqu'au complet achèvement des travaux, et à concurrence d'une somme totale de £ T. 7,000,000 effectifs. La société devra remettre les dits fonds, comme il est stipulé à l'article 25 ci-après sur états émanés de la Commission technique et approuvés par le Ministre de Travaux Publics. Faute par elle d'avoir fourni les fonds dans le délai de jours à compter de la remise des dits états, elle paiera un intérêt de retard de pour cent.

Art. 11. Pour assurer l'exécution des présentes, le Gouvernement Impérial ottoman créera des obligations dont le montant nominal devra être suffisant pour couvrir : (1) les sommes effectives fournies par la société pour les travaux d'irrigation et pour la construction du chemin de fer ; (2) les sommes nécessaires pour servir aux obligations émises des intérêts intercalaires pendant une durée qui ne pourra pas excéder ans.

Art. 12. Ces obligations seront émises soit en une seule fois, soit par séries au fur et à mesure des besoins. La société—et le groupe financier qui se porte fort pour elle—s'engage à en assurer intégralement l'émission par ses seuls moyens et ressources. Le taux de prise ferme sera fixé d'accord au fur et à mesure des émissions.

Art. 13. Ces obligations seront dénommées : "Obligation domaniale de la Mésopotamie." Elles rapporteront un intérêt de 4 pour cent l'an, payable semestriellement en livres turques, livres sterling, ou francs, ou marks, au choix du porteur, les et (n.s.) de chaque année. Elles seront remboursables au pair en une période de années, comptées à partir de , au moyen d'un amortissement de pour cent l'an, calculé sur le capital nominal créé. Cet amortissement devra s'effectuer si possible, par voie de rachats au-dessous du pair, et si non, par tirages au sort annuels au pair.

Art. 14. Toutefois, de convention expresse : (1) l'amortissement des obligations sera ajourné pendant une période de dix années à compter de l'émission ; (2) après l'expiration de la dixième année, le Gouvernement, sans être tenu de procéder par voie d'amortissement annuel, pourra rembourser les obligations, en tout ou en partie, à toute époque, à sa convenance. Les obligations remboursables de cette manière seront désignées par tirages au sort. Les tirages ainsi que les rachats auront lieu par les soins et aux bureaux de la Banque ottomane, à Constantinople, deux mois avant l'échéance du coupon du (n.s.).

Art. 15. Les coupons échus et payés ainsi que les obligations sorties au tirage et

remboursées seront annulés par perforation et remis par la société à la Banque Impériale ottomane, à Constantinople. Lors du remboursement des obligations sorties aux tirages, tous les coupons non échus devront se trouver attachés au titre, et les coupons manquants seront déduits du montant à rembourser au porteur du titre amorti.

Art. 16. A la garantie et sûreté du remboursement des dites obligations, le Gouvernement Impérial affecte d'un façon absolue et irrévocable, jusqu'à parfaite extinction du capital nominal des obligations: (1) un droit privilégié sur le produit de toutes ventes et aliénations, dont les terres domaniales feront l'objet, conformément à l'article 12 des dispositions No. 1 ci-annexées; (2) un droit privilégié sur le chemin de fer, son matériel roulant, et ses dépendances. Ces droits s'exerceront par préférence avant tous autres prélèvements, quels qu'ils soient. Il est spécifié que, sauf accord préalable avec la société, le prix de la vente des terrains ne sera pas inférieure à £ T. 20 par hectare.

Art. 17. Après la période prévue à l'article 11 pour le paiement des intérêts intercalaires, le service des intérêts des obligations sera assuré par un droit de prélèvement privilégié sur: (1) les dîmes et impôts fonciers dus par toutes les terres rendues à la culture et qui sont estimées représenter une superficie globale de 1,000,000 d'hectares environ; (2) le produit annuel de toutes locations et de tous fermages dont ces terres pourront faire l'objet; (3) le produit annuel de tous revenus découlés au profit de l'État ou de tous tiers substitués à l'État, de l'usage des canaux et travaux d'irrigation, d'alimentation et de navigation, que les dits revenus soient perçus sous forme de redevances, d'abonnements, de droits de consommation d'eau, de péages, ou sous toute autre forme; (4) les recettes annuelles nettes de l'exploitation du chemin de fer.

Art. 18.—Sec. 1. Au cas où les revenus ci-dessus énumérés seraient insuffisants pour assurer le service de l'intérêt des obligations, les insuffisances constatées à l'expiration d'une année quelconque seront reportées et prélevées par antériorités et privilège sur le produit des dîmes et impôts fonciers, de même que sur les revenus du chemin de fer, de l'année suivante.

Sec. 2. En attendant ces prélèvements, et afin d'assurer le paiement régulier des coupons des obligations, la société sera tenue d'avancer au Gouvernement Impérial, et ce jusqu'à concurrence d'une somme de , les fonds nécessaires pour parfaire les insuffisances.

Sec. 3. Ces avances seront remboursées à la société au moyen de prélèvements effectués: (1) sur la portion des revenus des dîmes et impôts fonciers de l'année en cours laissée libre par le service de l'intérêt des obligations; (2) sur le fonds de réserve dont il sera parlé ci-après; (3) sur le produit des ventes et transactions des terres de l'État dans la contrée susvisée; (4) sur tous autres revenus proposés par l'État et acceptés par la société.

Art. 19. Si, pendant la période prévue à l'article 11 pour le paiement des intérêts intercalaires, les terres rendues à la culture produisaient des revenus sous forme de dîmes, impôts, fermage, ou autrement, ces sommes seraient versées à un fonds de réserve spécialement destiné à parfaire les insuffisances de revenus et sur lequel la société se remboursera des avances qu'elle aura faites dans le cas prévu par l'article 18, section 2.

Art. 20. Indépendamment des engagements ci-dessus, la société pourra consentir au Gouvernement Impérial toutes avances spéciales, en vue de lui faciliter l'aménagement et le placement des terres de l'État en Mésopotamie. Ces avances feront, au fur et à mesure des besoins, l'objet de conventions particulières entre le Gouvernement et la société.

Art. 21. La société assumera l'exploitation du chemin de fer, aux conditions que fixera une convention annexe.

Art. 22. La société sera représentée de droit à la Commission technique de la Mésopotamie par deux délégués de son choix. Elle sera également représentée à la vente des terrains.

Art. 23. Sur le produit annuel total des ventes, locations, fermages, et d'une manière générale de toutes transactions et de tous transferts auxquels donnera lieu l'application de l'article 16 ci-dessus, il sera prélevé par préférence et privilège 75 pour cent pour assurer le remboursement du capital-obligations dépensé pour les travaux de l'État. Le surplus, soit 25 pour cent, sera, après remboursement à la société des avances visées à l'article 20 et éventuellement de celles visées à l'article 18, section 2, réparti entre le Gouvernement Impérial et la société par moitié. Lorsque le capital-obligations de même que les dites avances auront été intégralement remboursés, les revenus visés par le présent article appartiendront pour 60 pour cent à l'État et pour 40 pour cent à la société.

Art. 24. Au cas où les propriétaires, possesseurs, acheteurs, ou locataires des terres

ne paieraient pas les impôts, prix, et location dus par eux au Gouvernement, celui-ci sera garant vis-à-vis de la société du montant de la dette, et, à défaut de paiement dans les deux ans, tenu vis-à-vis d'elle en lieu et place.

Dispositions transitoires.

Art. 25. Toutes opérations de Trésorerie auxquelles donnera lieu l'exécution de la présente convention seront effectuées par l'intermédiaire de la Banque Impériale ottomane de Constantinople. Entre ses mains seront versées, au fur et à mesure des encaissements: (1) toutes les sommes fournies à l'État par la société en exécution des articles 10, 18 (sections 1 et 2), et 20; (2) toutes les sommes encaissées en exécution des articles 17 (section 1), 18 (section 3), 19, et 23.

Art. 26. La société sera autorisée à créer des succursales dans l'Empire ottoman et à l'étranger. Les immeubles nécessaires à l'exploitation de l'objet social seront exempts de tout impôt.

Art. 27.—Sec. 1. Il ne sera perçu aucun droit de timbre, taxe, ni impôt en Turquie, dans le présent et l'avenir, sur la présente convention, les conventions complémentaires, et tous actes subséquents, sur les statuts sociaux, les actions de priorité, jouissance, ou parts de fondateurs, les obligations, et les coupons.

Sec. 2. Les frais de confection et d'impression des obligations, et les frais de publication des résultats des tirages dans deux journaux de Constantinople, deux journaux de Paris, deux journaux de Londres, et un journal de Berlin, seront à la charge du Gouvernement Impérial ottoman.

Art. 28. Afin d'assurer la bonne exécution de la présente convention il est et demeure entendu: (1) qu'il ne pourra être procédé à aucune création d'obligations domaniales de la Mésopotamie sans un accord préalable avec la société; (2) qu'il ne sera apporté, pendant toute la durée du présent contrat, aucune modification pouvant diminuer ou changer les revenus spécialement affectés en gage aux avances consenties par la société sans accord préalable avec elle, et avant d'avoir affecté à la dite garantie d'autres revenus agréés comme d'une valeur égale et présentant les mêmes sûretés; (3) qu'au cas où le Gouvernement Impérial déciderait de confier à un tiers la construction des ouvrages et travaux faisant l'objet de la présente convention, la société jouira d'un droit de préférence à conditions égales. Elle devra faire connaître, dans ce cas, son acceptation ou son refus de construire dans le délai de cinq mois, à dater du jour où elle en aura été requise. Au cas où, par suite de son refus, la construction serait effectuée par un tiers, toutes les stipulations qui précèdent resteraient strictement en vigueur.

Art. 29. En cas de contestation sur les présentes et leurs suites, le différend sera soumis à trois arbitres; chaque partie en désignera un, et les deux arbitres ainsi désignés choisiront le troisième. La sentence arbitrale sera définitive et sans recours.

Chemin de Fer: Convention de Construction et d'Exploitation.

Son Excellence , Ministre des Travaux Publics, agissant au nom et pour le compte du Gouvernement Impérial ottoman, et en vertu de , d'une part, et M. , agissant tant au nom et pour le compte de MM. , dénommés ci-dessous, "le groupe financier," qu'au nom et pour le compte de la société en formation, la , pour laquelle M. et son groupe se portent fort; d'autre part, après avoir rappelé que le Gouvernement Impérial ottoman a décidé et ordonné la construction d'une ligne ferrée à voie normale entre Bagdad et Homs, et passant par ; que la construction de cette ligne doit être achevée dans un délai maximum de ans, à dater du ; que par convention entre les parties signataires des présentes, en date du , le Gouvernement Impérial a déclaré affecter les revenus de cette ligne à la garantie des emprunts d'État destinés à faire face aux travaux d'irrigation de la Mésopotamie et de la construction du Chemin de Fer de Bagdad à Homs; que, par la même convention, le Gouvernement Impérial a accordé au groupe financier le droit d'exploiter cette ligne au nom et pour le compte du Gouvernement, ont, par les présentes, arrêté d'un commun accord la convention suivante:—

Article 1.—Sec. 1. Le Gouvernement Impérial charge M. X., qui accepte, tant en son nom personnel qu'au nom et pour le compte du groupe financier et de la société pour

laquelle il se porte fort, de la construction et de l'exploitation de la ligne ferrée de Bagdad à Homs en passant par . La ligne sera construite à voie normale et à une voie. Pour en faciliter la prompte exploitation, elle sera divisée en sections de 10 kilom.

Sec. 2. Ces sections dont la première devra être achevée et prête à être livrée à l'exploitation au plus tard . mois après l'échange de la présente convention, seront construites successivement et sans interruption, de manière que la dixième section soit achevée et prête à être exploitée au plus tard . mois, et la dernière au plus tard . mois à compter de l'échange de la présente convention. Aussitôt qu'une section de 10 kilom. sera achevée elle sera livrée à l'exploitation.

Art. 2. Le groupe financier devra, dans un délai de cinq mois à dater de l'échange des présentes et du cahier des charges, présenter au Ministère des Travaux Publics les plans et projets complets après études définitives et conformément aux prescriptions du cahier des charges. Ces plans et projets devront être examinés par le Ministère et, selon les cas, approuvés tels quels ou remaniés s'il y a lieu, dans le délai de deux mois à compter de leur présentation. Passé ce délai, si le Gouvernement Impérial n'a pas notifié sa décision au groupe financier, celui-ci pourra considérer les projets présentés par lui comme approuvés et il procédera à l'exécution de ses travaux. Si le Gouvernement Impérial apporte à ces projets des modifications de nature à entraîner des retards de plus d'un mois, dans l'approbation des plans, le délai fixé pour la construction sera prolongé d'une période égale à celle du retard apporté.

Art. 3. Le groupe financier s'engage à commencer, à ses frais, risques, et périls, les travaux de chaque section dans un délai de trois mois à compter de la date de l'approbation des plans y relatifs, et à les terminer dans un délai de . ans, de façon que l'ensemble de la ligne soit terminé dans un délai de . ans à partir de l'échange de la présente convention et du cahier des charges.

Art. 4. Le Ministère des Travaux Publics contrôlera l'exécution des travaux par l'intermédiaire de la Commission technique de la Mésopotamie. Les frais de contrôle seront à la charge du groupe financier. Ils sont fixés forfaitairement à 200 piastres or par kilomètre et par an. Cette somme viendra annuellement en déduction de celles dont le Gouvernement pourrait être redevable au groupe financier par application des articles 18 (paragraphe 2) et 20 de la convention du .

Art. 5. Le matériel et les matériaux, fers, pierres, bois, houilles, machines, et autres nécessaires au chemin de fer et à ses dépendances, que le groupe financier achètera dans l'Empire ou qu'il fera venir de l'étranger, seront exemptés de tout impôt intérieur et de tous droits de douane.

Art. 6. Les bois et charpentes nécessaires à la construction et à l'entretien du chemin de fer pourront être coupés dans les forêts des régions voisines appartenant à l'État, conformément aux règlements y relatifs.

Art. 7. Les objets d'art et antiquités découverts pendant les travaux seront soumis aux règlements régissant la matière. Toutefois, le groupe financier sera dispensé de la formalité de présenter une demande et d'obtenir une autorisation pour effectuer les recherches.

Art. 8. Aussitôt que le groupe financier notifiera au Ministère des Travaux Publics l'achèvement des travaux d'une section, celui-ci fera inspecter les travaux exécutés par la Commission technique de la Mésopotamie et procédera à leur réception.

Art. 9. L'exploitation sera faite, pour le compte du Gouvernement Impérial, par le groupe financier représenté aux présentes par M. . et par la société dont il se porte fort, et cela sans garantie kilométrique de la part du Gouvernement.

Art. 10. Pendant toute la durée de l'exploitation le chemin de fer et ses dépendances ainsi que son matériel fixe et roulant seront tenus dans un parfait état d'entretien par le groupe financier, pour le compte du Gouvernement Impérial, lequel exercera son contrôle par un ou plusieurs commissaires pendant la dite exploitation.

Art. 11. Le groupe financier est tenu de se conformer, quant à ce qui concerne la police et la sécurité de la voie, aux lois et règlements actuellement en vigueur et à promulguer à l'avenir dans l'Empire ottoman.

Art. 12. Le groupe financier est autorisé à percevoir des droits de péage conformément aux tarifs du cahier des charges, à partir du jour de la mise en exploitation de chaque section.

Art. 13. Le transport des militaires des armées de terre et de mer, voyageant en corps ou isolément, tant en temps de guerre qu'en temps de paix, ainsi que du matériel et des approvisionnements de guerre, des prisonniers et des condamnés, des

agents de l'État, des valises postales sera effectué conformément aux prescriptions du cahier des charges.

Art. 14. Les employés et agents du chemin de fer porteront la tenue qui sera fixée par le Gouvernement Impérial; ils porteront le fez et ils seront autant que possible choisis parmi les sujets ottomans.

Art. 15. Pendant toute la durée de l'exploitation le sol et les revenus du chemin de fer et de ses dépendances ne seront passibles d'aucun impôt.

Art. 16. Le groupe financier aura le droit de faire transporter avec ses propres moyens de transport et sans payer aucune taxe à l'Administration des Postes de l'Empire, les correspondances et valises concernant exclusivement les services du chemin de fer. Il aura également le droit de faire transporter, et sans leur appliquer aucune taxe, les objets et matières de consommation tels que houilles, graisses, charbons, les matériaux et le matériel nécessaires à l'entretien et à l'exploitation du chemin de fer.

Art. 17. Aussi longtemps que n'auront pas été complètement amorties toutes les sommes à la garantie desquelles les recettes nettes annuelles seront affectées, aux termes de la convention intervenue, le ., entre les mêmes parties; les dites recettes nettes, déduction faite des frais d'exploitation, seront, à la fin de chaque exercice, versées par le groupe chargé de l'exploitation entre les mains de la Banque Impériale ottomane à Constantinople, pour être, en temps voulu, attribuées aux ayants droit, conformément aux stipulations de la dite convention.

Art. 18. Les recettes nettes annuelles, après extinction de toutes les dites charges, seront réparties dans les proportions suivantes, après déduction des frais d'exploitation:—

Au Gouvernement Impérial:

1. 40 pour cent jusqu'à une recette kilométrique nette moyenne de 4,500 fr.
2. 50 pour cent de 4,501 fr. à 10,000 fr., la portion inférieure à 4,500 fr. devant toujours être partagée comme il a été dit au paragraphe 1.
3. 60 pour cent au-dessus de 10,001, les deux portions inférieures (de 1 à 4,500 et de 4,501 à 10,000) devant toujours être partagées comme il a été dit au paragraphes 1 et 2.

L'excédant sera attribué au groupe exploitant.

Art. 19. Le groupe financier exploitera la ligne pendant une période de soixante ans, à compter du premier jour de l'exploitation. Toutefois, dès l'expiration de la trentième année, calculé comme il vient d'être dit; le Gouvernement Impérial aura le droit de racheter l'exploitation à quelque époque que ce soit, moyennant le paiement d'une somme équivalente aux 50 pour cent des recettes brutes moyennes des cinq années qui précéderont le rachat, sans que la dite annuité puisse être inférieure à 7,500 fr. par kilomètre. Le Gouvernement assurera le paiement régulier du prix de rachat jusqu'à l'expiration des trente années, en une convention à intervenir entre les parties.

Art. 20. Pendant toute la durée d'application du présent contrat le groupe financier jouira, en ce qui concerne les droits de timbre, taxes, impôts, et tarifs, du traitement de la compagnie de chemin de fer la plus favorisée dans l'Empire ottoman. Les tarifs applicables par le dit groupe financier, seront déterminés par le cahier des charges.

Dispositions transitoires.

Art. 21. Dans le cas où, sans un motif de force majeure dûment constaté, le groupe financier n'aurait pas, dans les délais fixés, commencé les travaux ou si, après les avoir commencés, il les laissait inachevés, il sera déchu de ses droits, et dans ce cas le Gouvernement adoptera les mesures nécessaires pour assurer provisoirement le service, conformément aux indications du cahier des charges.

Art. 22. Dans le cas d'interruption du service sur une partie ou sur la totalité de la voie par la faute du groupe financier, le Gouvernement Impérial prendra, aux frais, risques, et périls du groupe financier, les mesures nécessaires conformément à l'article . du cahier des charges pour assurer provisoirement l'exploitation.

Art. 23. Le groupe financier pourra établir sur tout le parcours de la voie, une ligne télégraphique. Cette ligne ne pourra pas servir aux correspondances privées et n'ayant pas trait à l'exploitation du chemin de fer.

Art. 24. En exécution de la convention intervenue entre les parties, le et l'entreprise étant d'utilité publique, les terrains nécessaires à l'établissement

du chemin de fer et à ses dépendances, et appartenant à des particuliers, seront pris conformément à la loi sur l'expropriation, toutes les fois qu'une entente ne pourra être établie avec les propriétaires pour l'achat de ces terrains. Le Gouvernement fera procéder à l'expropriation, et à la remise des terrains nécessaires à l'établissement de la voie et de ses dépendances aussitôt après que le tracé du chemin de fer aura été approuvé et appliqué sur le terrain. Cette remise sera faite par le Gouvernement dans le délai de deux mois.

Art. 25. Pour assurer l'exécution des dispositions précédentes, le groupe financier est autorisé à se substituer une société anonyme. Celle-ci pourra être soit la société constituée en vertu de la convention intervenue le entre les mêmes parties, soit une société filiale de la précédente et dont le groupe financier, représenté à ce contrat par M. X., se porte fort.

Art. 26. Tant en ce qui concerne sa nationalité que la juridiction à laquelle elle sera soumise, la présentation de ses statuts, leur homologation, les délais relatifs à cette formalité et à la constitution de la société, le dépôt, le montant, et la restitution du cautionnement, cette société sera régie par les dispositions des articles 3, 4, 5, et 6 de la convention en date du

Art. 27. Les dispositions des articles 26, 27, et 29 de la convention précitée seront également applicables à cette société.

[5903]

No. 14.

Sir Edward Grey to Sir E. Gorst.

(No. 11.)

(Telegraphic.) P.

Foreign Office, February 21, 1910.

SCHEMES for the irrigation of Mesopotamia.

Would it be possible for the Egyptian Government, without undue inconvenience, to allow Cassel to obtain Webb's opinion on certain irrigation schemes of importance? Cassel is anxious to consult him.

He might, perhaps, while engaged in this work, forgo his salary as employé of the Egyptian Government.

[6502]

No. 15.

Sir E. Gorst to Sir Edward Grey.—(Received February 24.)

(No. 10.)

(Telegraphic.) P.

Cairo, February 24, 1910.

IRRIGATION projects in Mesopotamia.

I will send a reply to your telegram No. 11 of the 21st February in a few days' time. Webb will then be here, and Cassel's proposal can be discussed with him.

[7681]

No. 16.

Sir H. Llewellyn Smith to Sir C. Hardinge.—(Received March 5.)

Dear Hardinge,

Board of Trade, March 4, 1910.

PLEASE excuse my delay in replying to your letter, but I have only just had an opportunity of discussing Sir Edward Grey's memorandum about Bagdad with Mr. Buxton.

I now enclose a copy of my minute to which you refer. Mr. Churchill was in agreement with it, and Mr. Buxton authorises me to say that, so far as he is able to judge from the cursory examination which is all that he has been able to give to the question, he concurs in the views expressed.

Yours very truly,

H. LLEWELLYN SMITH.

Enclosure in No. 16.

Minute by Sir H. Llewellyn Smith on Bagdad Railway Negotiations.

The President,

IF the present negotiations are fruitless, we may, of course, have to cast about for an alternative solution, and I admit that the situation is very difficult and complicated, but, unless there are some considerations which have not been fully revealed to us at the Board of Trade, I see no sufficient ground at present for any substantial modification of the position which we have taken up, as set out in our recent letter to the Foreign Office.

Shortly stated, our position is this: We assume as an axiom (which we have no means of criticising) that, for reasons of high policy, means have to be found to prevent the Germans from completing their railway to the Persian Gulf. As they are under contract to build such a railway, there are only two courses possible:—

1. To thwart them by making it impossible for the Turks to supply the necessary funds, or by obtaining a rival concession which will make the German line unprofitable; or

2. To come to terms (a) with the Germans to obtain from them their concession so far as concerns the southern section of the railway, and (b) with the Turks to modify the terms of the concession in any way that appears desirable.

We have no means of judging how far course (1) is permanently possible, but I should doubt if it can be ultimately successful, and it seems likely that German influence will at least be strong enough, playing on Turkish susceptibilities, to make it impossible for us to obtain a new concession for a rival line. If this be so (and on this point our knowledge of the situation is necessarily very imperfect) we can only proceed on the lines of (2).

(2.) It is, I think, necessary to keep perfectly distinct in our minds the transaction with the Germans and the transaction with the Turks, although there might be considerable advantage if it were possible to conduct the double negotiation simultaneously;—

(a.) The Germans can, of course, only put us in possession of what they have to sell, viz., a concession based upon kilometric guarantees. All we can arrange with them is—

1. The terms as to payment or share of control on which they will part with the concession for the southern section; and

2. An undertaking not to oppose any agreement between us and the Turks to vary the conditions of the concession so transferred.

It is obviously useless for us to raise with the Germans the question of kilometric guarantees. On the other hand, it ought, I think, to be clear that, by stipulating with the Germans for a free hand to revise the financial conditions by agreement with the Turks, we take power (if thought desirable) to dispense wholly or partly with kilometric guarantees on our part of the concession. I hardly think that by such a transaction with the Germans we can be said to entangle ourselves in the system of kilometric guarantees, though, no doubt, the transaction might be so represented by opponents unless carefully handled.

(b.) In negotiating with the Turks we should, I think, be in a position to put before them an attractive proposal for revising the conditions of the concession, but as Mr. Marling's despatch suggests that a proposal for a British guarantee would be rejected by the Turks, and some guarantee would probably be requisite in order to attract investors, it seems to me that we shall inevitably come back to a Turkish guarantee or payment of some kind. Sir E. Grey seems to incline towards a scheme for guaranteeing the interest on capital, and sharing equally in the profits, as against a system of constructional and working "kilometric" guarantees. Such a scheme would be materially more favourable to Turkey than the conditions of the existing Bagdad Convention, but if weighted with a payment to the Germans of 2,000l. per kilometre,* the apparent difference in favour of Turkey would not be so great as to make it certain that the Turks would prefer the alternative to the existing system of guarantee which (it must never be forgotten) does at least gratify their national pride by making them the nominal possessors of the railway from the outset.

* I assume that this payment or its equivalent will have to be made anyhow.

We have told the Foreign Office that we consider the terms of the existing concession very unsatisfactory, as imposing an unfair burden on Turkey if the project fails and discouraging enterprise on the part of the company by handing over the fruits of success to the Turkish Government. We have offered to suggest a revised scheme, and the plan we have had in mind is to cut down the constructional guarantee to a sum not more than equivalent to the probable cost of construction and rolling-stock, and at the same time to release them altogether from the obligation to guarantee receipts up to 4,500 fr. per kilometre. On the other hand, the Turkish share of the gross proceeds would be reduced to one-half the excess over 4,500 fr. per kilometre.

This proposal is of course open to further revision, and it may be that the scheme of a guarantee of interest might be substituted for it with advantage. But we can only know about this when we come to negotiate with the Turks, and it is at least debatable whether they would regard the alternative as an improvement.

After all, there is nothing specially vicious in a guarantee being "kilometric," though the name has undoubtedly become odious through association with the iniquitous terms of the Bagdad Convention. What we have to look at is (1) the total burden on Turkey's finances; and (2) the degree to which the guarantee encourages or discourages the successful development of the enterprise.

Of course, it is assumed that the Turkish guarantee of interest would be a *really* substantial guarantee supported by definite revenues. Otherwise British financiers would not look at it.

The last part of Sir E. Grey's memorandum touches the question of securing that the capital and control shall remain predominantly British. If constructional guarantees are admitted the actual capital of the company will be small, and probably held by a few persons, and, in any case, I cannot think that there will be any difficulty in stipulating that the company shall put a definite restriction on the sale of its shares. Whether the particular plan suggested for the purpose in the memorandum is the best I should not like to say, but the point (which, of course, is of cardinal importance) is one which I do not think need give rise to anxiety. It is one entirely between His Majesty's Government and the promoters of the new company, and does not affect the negotiation with Germany or Turkey. At the proper stage, however, the matter should be borne in mind.

In the above note I have not referred in detail to the suggestion put forward by Mr. Stanley, viz., that the Germans should be paid off with a lump sum by the Turks derived from a loan from His Majesty's Government. Such a loan could not be made without appearing in the estimates, and giving rise to keen Parliamentary discussion, and I do not think the plan would be acceptable either to Turkish or German sentiment.

H. LL. S.

February 1, 1910.

[8477]

No. 17.

Sir H. Llewellyn Smith to Sir C. Hardinge.—(Received March 11.)

Dear Hardinge,

Board of Trade, March 10, 1910.

I RETURN herewith your draft letter to Babington-Smith. I do not think I have any suggestions to make beyond one of quite minor importance indicated on p. 2. You know my views on the whole situation from the memorandum which I recently sent to you. I am quite in accord with the revision of the financial provisions of the convention, so far as regards the Gulf section, in the general direction which you outline, but it appears to me that this revision can only be effected by agreement with the Turkish Government, and subject to some financial arrangement with the Germans to compensate them for the loss of so valuable a part of their concession. If, as appears to be the case, the present moment is not opportune for pressing the matter at Constantinople, I trust that the question of the 4 per cent. increase of customs duties will also stand over.

Of course there can be no question of British participation in the whole railway throughout.

Yours sincerely,

H. LLEWELLYN SMITH.

P.S.—If you would let me have a copy of your letter to Babington-Smith as finally sent, for confidential record, I should be much obliged.

H. LL. S.

[8477]

No. 18.

Sir C. Hardinge to Sir H. Llewellyn Smith.

Dear Llewellyn Smith,

Foreign Office, March 11, 1910.

MANY thanks for your letter of the 10th March, returning my draft to Babington-Smith.

I think I am correct in saying that the 2,000l. per kilom. is intended to meet the working expenses on the sections west of Bagdad, because, in his letter under reply, Babington-Smith, in describing the working expenses guarantee under the concession of 1903, writes: "The Germans admit the perversity of the arrangement, and say that, in order to meet the future charge arising from it (i.e., the working expenses guarantee), they propose to put aside as a reserve a sum of 2,000l. per kilom. from the margin on the construction of the easy sections."

I fully agree with you that we must effect our participation in the railway, if at all, both by agreement with the Turkish Government and subject to some arrangement advantageous to the Germans. It seems to me that the nearer we can approach to agreement with the Turks the stronger will be our position in regard to the Germans, and if the latter know that we are actively negotiating with the former with the objective of a competing line down the Tigris, they will not improbably consider that our co-operation would be a very substantial advantage to them, as it would obviate a prospect of serious competition. Another inducement to the Germans to secure our participation is that Koweit would be incomparably the best terminus for a great trans-continental line.

As to the prospects of reaching an agreement with the Turks, I know that some people are inclined to be sceptical, but much depends on the way in which the matter is put before them. We have the powerful lever of the 4 per cent. customs increase, and by offering to give the competing line a Turkish façade by granting the Turkish Government a certain proportion of shares as purchase money for the concession, and by making a reassuring declaration as to Turkish sovereignty in Mesopotamia, and as to the position at Koweit, we should be able to convince the Turks that our objects are exclusively commercial when we seek for a competing line down the Tigris. We should of course make it clear to the Turks when negotiating that we would prefer to co-operate with the Germans if they would agree to admit our participation on terms less onerous to Turkey than those of the 1903 concession.

I will send you a copy of my letter to Babington-Smith, as you desire.

I am, &c.

CHARLES HARDINGE.

No. 19.

Sir C. Hardinge to Sir H. Babington-Smith.

(Private.)

Dear Babington-Smith,

Foreign Office, March 12, 1910.

I AM very much obliged to you for your interesting letter of the 8th February, containing an able statement of the arguments in favour of accepting Gwinner's offer to Cassel.

I quite agree that the present moment is not an opportune one for pressing our views at Constantinople about the Bagdad Railway, owing to the chauvinism which has been created by interested parties around the Lynch Concession. It is difficult, however, to believe that, when the proper moment comes, any insuperable objection can be raised by the Turks against British interests acquiring 60 per cent. of the total capital of the Gulf sections of the railway. Were there any apprehensions on the part of Turkey, a clear statement of our intentions should suffice to dispel them, and to show that no challenge to Turkey's sovereign rights would be involved. All that we want is to maintain and foster, under the protection of the Turkish Government, the trade interests which this country has been developing for over two centuries. The method by which we propose to attain this object is that British investors should hold a certain percentage in a Turkish Railway Company's share capital, and that they should be adequately represented on the Board of that Railway Company, whose total share capital will revert to the Ottoman Government on the expiration of the Concession. Much will depend upon the attractiveness of the form in which the matter is presented to the Turks.

[1723]

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I do not believe that the position of the Germans is quite as strong as you seem to think. The 1903 Concession is bound to call forth increasing discontent as the line progresses and the payment of the annuities for each successive section is exacted from the Turkish taxpayer. My belief is that the Germans are anxious for our co-operation because they realize the strength of our position. They fear that we may get a competing line down the Tigris. Also they probably know of our privileged position at Koweit, and that the terminus can hardly be made elsewhere, and they do not want opposition to their interests in Mesopotamia on account of the political uncertainty which is at present affecting enterprise in Turkey. They realize, moreover, that so long as we are hostile to the project their bonds will not obtain quotation on the Paris market.

It is not impossible that, if His Majesty's Government decline to approve of British participation in the Bagdad Railway unless there is a modification of the Concession, the Germans may give way and agree to suggest a modification to the Porte. Were the Germans to unite with us in such a course it is probable that the opposition of the Turks would disappear, especially if the prospect of the 4 per cent. customs increase were held out to them. The Germans might then stipulate that the whole benefit of such a modification should not be enjoyed by Turkey alone, but should be shared by them, and they could then arrange matters as they liked best.

Our objections to the kilometric guarantees remain, and to accept them would expose us to very damaging criticism from the public. It is true that the working guarantee has been criticized, because it militates against the railway being sufficiently worked to make it pay. It should be noted, however, that in the sections as far east as Mosul the gross traffic receipts may well be under 4,500 fr. a kilometre, as the population is sparse and the traffic would be relatively small, so that the Germans will probably derive their profits on those sections, not from traffic receipts, but from the Government working guarantee. On the other hand, the gross receipts on the Bagdad-Gulf sections would probably exceed the 4,500 fr. per kilometre, and there the Government would not have to pay any guarantee to the Company. Why therefore should the Bagdad-Gulf sections be mulcted 2,000l. per kilometre in order to meet the working expenses of the western sections of the line, which must almost certainly be lower than those of the Gulf sections?

As for the construction annuity, we look upon it as altogether in excess of what the actual cost is likely to be. The Committee which examined the question here in 1907 stated that, owing to the size of the kilometric guarantees, a profit of 5,000,000l. was expected to be realized by the promoters on the construction alone of the Bagdad Railway. Such a Concession would be utterly inconsistent with the interests of Turkey.

I enclose a short statement showing how the Committee arrived at this estimate of profit, and from it you will see that, while recognizing the substantial nature of the permanent way, they estimated the cost of construction, including rolling-stock, at 4,375l. per kilometre on the first section as against Dr. Gwinner's figure of 5,000l., which you quote. We draw our own conclusions as to the disposal of the difference.

Now as to the Gulf sections. You say, "The cash product of the bonds provided to meet the construction cost is about 8,500l. per kilometre." If 2,000l. per kilometre is surrendered to Dr. Gwinner in respect of the western portion of the line there will remain 6,500l., and this sum, you urge, will not leave an excessive margin, taking into consideration the gauge and the substantial nature of the line, the provision of rolling-stock, the cost of terminal arrangements at Bagdad, Bussorah, and Koweit, and of one or more bridges over the Euphrates, and, finally, the payment of interest during construction.

I do not think it correct to include in the cost of constructing the Bagdad-Gulf sections of the railway the expense of "terminal arrangements" other than stations. It is expressly stipulated in Article 23 of the Concession of 1903 that "le concessionnaire aura la faculté de construire, à ses frais, des ports à Bagdad," &c.; and it is provided that there shall be special port dues, which would of course be regulated on such a scale as to cover not only the current expenditure of the port authorities, but also the interest and sinking fund on the original outlay in construction.

With regard to bridges, so far as I can see, over the Euphrates there need only be one.

As to payment of interest during construction, this item need not be very considerable on the Gulf sections, where the engineering obstacles are few. If, as in any case would be necessary, Article 29 were modified, it might be possible to

undertake work on all the Gulf sections simultaneously, thus lessening the period of construction during which interest would have to be paid.

You do not think that 6,500l. per kilometre would leave an excessive margin after construction; it is impossible to estimate cost with precision in the absence of detailed surveys, but such information as we have does not point to so high a figure. The Committee of 1907, after an examination of all available data, put the cost of the Konia-Eregli section at 4,375l. per kilometre, including rolling-stock; and they fully recognized that the first section was relatively easy and that the line is substantially built. As a fair estimate of the cost on the Bagdad-Gulf sections Sir James Mackay, who has some Indian experience, suggested 8,000l. a mile (5,000l. a kilometre); i.e., 625l. per kilometre in excess of what the first section is believed to have cost.

So much for the cost of construction. I now take the liability of the Ottoman Government under the Concession of 1903, in so far as concerns the sections from Bagdad to Koweit—a distance of approximately 450 miles, or say 716 kilom.

The construction annuity yields, to take your figure, 8,500l. per kilometre; and as the loans, after allowing for discounting and bankers' charges, produce only slightly over 80 per cent. of their nominal amount, interest must be reckoned at 5 per cent.

The capital sum on which interest would be payable would be 8,500l. \times 716, or 6,086,000l.; and interest at 5 per cent. would be 304,300l., and this amount of interest would be subject to reduction only by the operation of the sinking fund, which is spread over the whole period till the expiration of the Concession.

The working expenses guarantee is not a fixed charge, but it might at its maximum amount reach 4,500 fr. per annum per kilometre, which works out at 128,880l. a-year.

The liability of the Turkish tax-payer in respect of the Bagdad-Gulf sections would thus be interest to the amount of 304,300l., reducible only by the gradual operation of the sinking fund, and, with the working guarantee, it might reach 433,180l.

An alternative plan would be the adoption of what, for the sake of convenience, I may term the "Indian" system. This could be introduced on the most advantageous basis if His Majesty's Government were to offer a guarantee of 3 per cent. on the actual cost of construction, which we put up at, say, 3,600,000l. including rolling-stock. It has been suggested that the Turks would regard this proposal as a dereliction of their sovereign rights.

The other alternative which might be suggested to the Turkish Government is that they should themselves give a guarantee. In their case it would probably have to be one of 5 per cent., and the guarantee would have to begin from the moment the money was required for construction. A 5 per cent. guarantee would only amount to 180,000l. a-year, plus, say, 20,000l. in respect of bankers' profits and discounting, if such were necessary in connection with the financial operations; and, an important point, this liability would not continue for ninety-nine years, but it would cease as soon as the railway realized a net profit of 5 per cent. (a state of affairs which ought soon to come about in the fertile districts of Mesopotamia); while Turkey, under the "Indian" system, would share equally with the Railway Company in any profit over and above 5 per cent.

Now to contrast the two systems:—

Under the Concession of 1903 the Turkish Government might have to pay, as stated above, a maximum amount of 433,180l. Should, however, Dr. Gwinner insist on having 2,000l. of the construction guarantee (viz., 2,000l. \times 716 makes a capital sum of 1,432,000l., which, at 5 per cent., represents an annual charge of 71,600l.) on the Bagdad-Gulf sections, and make arrangements on that basis with the Turkish Government, while the "Indian" system was adopted by the British capitalists, the cost to the Turkish Government would be 71,600l. for the guarantee and 200,000l. a-year as the "Indian" maximum, making a total of about 270,000l.

The "Indian" system has the great advantage that the guarantee really corresponds to the actual cost of construction; it is a far cleaner plan than the other; it would benefit the Turkish tax-payer; and it would foster and develop British trade, getting us out of what you call the "perversity" of the working guarantee, which renders the railway incapable of being worked as a commercial success. If, on the other hand, we accept Dr. Gwinner's proposal, the Germans will be reaping the lion's share of the profits under the 1903 Concession, while we shall merely incur the odium of it, as neither the Turkish tax-payer nor the British public will be able to discriminate the innocent from the guilty of the two parties to the transaction.

We are not opposed to kilometric guarantees as a system; they exist, as you know, in Egypt; what we object to is the scale of the guarantees allotted under the Concession of 1903, imposing as they do, in our opinion, burdens altogether in excess of what is fair upon the Turkish tax-payer.

As regards the Bagdad-Homs Railway and the irrigation schemes in Mesopotamia, the French Government are very anxious that British capital should participate in the railway upon which they have bestowed their blessing, and they themselves are equally desirous of participating in the irrigation schemes. If the railway is to be built, we think it very desirable that British finance should participate in the scheme, so as to have a voice in the construction and control of a line which may in the future be of considerable advantage to British trade. The question of the extent of the participation of a British group and other details can be decided later. I understand, however, that the French Government have no knowledge whatever of the Ornstein group, and that the Ottoman Bank is not represented in it. Moreover, the French Government will take good care that no group gets the concession except through them. I may add that they have already announced their claim to a concession for this railway as a condition of the 4 per cent. surtax.

In view of my earlier statement that we agree with you that, owing to the prejudices aroused by the Lynch Concession, it may be advisable to postpone temporarily any further pressure to obtain for British capital the construction and control of the Persian Gulf section of the Bagdad Railway, it appears to us that for the present it would be well for British finance to concentrate on encouraging sound irrigation and railway projects, which will cover the ground in Mesopotamia, and so minimize the importance of the southern end of the Bagdad Railway.

Believe me, &c.

CHARLES HARDINGE.

Enclosure in No. 19.

Estimate made by the Bagdad Railway Committee of 1907 respecting the Cost of Constructing the Bagdad Railway.

THE Bagdad Railway loan, first series, 1903, was issued at 86.40, and, after allowing for discounting and bankers' profits, produced about 1,750,000*l.* This was for a section of 200 kilom. There are understood to be ten sections between Konia and Bussorah, each of 200 kilom., and the section from Bussorah (Zobeir) to Koweit may be taken roughly at 160 kilom. Assuming that the price of issue of the further loans is the same as the first, the cash yield for all ten sections from Konia to Bussorah should amount to about 17,500,000*l.*, and the cash yield for the 160 kilom. to Koweit may be taken as 1,400,000*l.*, so that the total provided for the line from Konia to Koweit would work out at about 18,900,000*l.*

It is contended that this provision is largely in excess of what the cost of construction is likely to be.

From a careful comparison of available data, the cost of the first section of 200 kilom. would appear to have amounted to 875,000*l.* for rolling-stock and construction.

This sum is composed as follows:—

	£
Rolling-stock	125,000
Construction	750,000
Total	875,000

The cost per mile works out:—

	£
Ground work	1,500
Permanent way and stations	4,500
Rolling-stock	1,000
Total	7,000

which corresponds approximately to 4,375*l.* per kilometre.

To the cost of the first section must be added a sum of 172,000*l.* spent in *faux frais* to Turkish officials and in preliminary surveys over the whole line. It is believed that the backsheesh for the whole concession was defrayed out of the profits on this section. Thus the total estimate works out at 875,000*l.* plus 172,000*l.*, which is 1,047,000*l.*

The second section is looked upon as far the most difficult, involving at any rate some 10 kilom. of bridging and tunnelling, besides some side tunnelling and several cuttings through bed-rock. There are fifty "difficult" and seventy-five relatively "easy" miles on this section, and the cost has been estimated, though with every reservation, at about 2,768,000*l.*, including 128,000*l.* for rolling-stock.

The third section of 200 kilom. will have to cross the Amanus range (from 2,000 to 3,000 feet high), and though it will not present such formidable obstacles as the second section, the cost may be put at 2,000,000*l.*, or 10,000*l.* per kilom. It is difficult to estimate with any precision these two sections (the second and third), but 4,768,000*l.* should be adequate.

There remain seven sections of 200 kilom. to Bussorah, and 160 for the extension to Koweit, or a total of 1,560 kilom. at 5,000*l.* per kilom., which makes a total of 7,800,000*l.*

The grand total for construction and rolling-stock for the line from Konia to Koweit thus is estimated at 13,615,000*l.*, which, deducted from the sum of 18,900,000*l.*, leaves a margin of 5,285,000*l.*

It is true that this estimate does not take into consideration the payment of interest during construction, but on the other side of the account it does not, with the exception of the extension to Koweit, take into consideration the numerous branches, the construction of which would show such a profit as would probably more than counter-balance the payment of interest during construction of the whole line; so that it seems not too sanguine an estimate to put the probable profit from construction at 5,000,000*l.*

It should also not be overlooked that under various articles of the concession of 1903 a number of minor but valuable rights are conferred upon the Company: exemption from customs dues for all materials, iron, wood, coal imported from abroad during the period of construction, and exemption from taxation of the Company's entire property and revenue during the whole term of the Concession; mining and quarrying and forest rights within a zone of 20 kilom. on either side of the line; the right to establish warehouses, shops, elevators, &c.; to manufacture bricks and tiles, and to make free use of any natural water power in the vicinity of the line for traction and lighting purposes—all of which tend to smooth the way for the economic exploitation of the country and for the profit of the Company.

Foreign Office, March 2, 1910.

[9969]

No. 20.

Memorandum communicated on the 22nd March, 1910, to Messrs. Ogilvy, Gillanders and Co., of Sun Court, Cornhill, London.

(Confidential.)

HIS Majesty's Government are considering in what manner they can best maintain and foster the long-established British trade interests in Mesopotamia, a region which is likely to become very productive if the irrigation schemes now in contemplation are carried out.

If it proves impracticable to secure British participation in the Bagdad Railway concession on favourable terms, His Majesty's Government will have to consider what alternative courses there are to such participation. They are inclined to think that one of the best plans would be to attempt to secure a concession for a light railway to follow an alignment down the right bank of the Tigris to Koweit via Kut and Bussorah, with the prospect of a junction with a French (or possibly an Anglo-French) line, now under consideration, from Bagdad to Homs and the Mediterranean.

His Majesty's Government have no means of judging whether the Ottoman Government would grant such a concession; but before entering upon negotiations with them, His Majesty's Government would require to know the outlines of an agreement which would be acceptable to British contractors.

In order not to give rise to suspicions in Turkey, the railway company would (while being predominantly controlled by the British group, who would possess a majority of the share capital and be represented correspondingly on the board) be nominally Turkish, and the Turkish Government would have to be allowed a nominal interest in the company.

[1723]

P

Should satisfactory terms be arranged, His Majesty's Government would probably be able to conclude arrangements with the Sheikh of Koweit for the construction of a suitable harbour by British contractors at Koweit, a place eminently suited for a terminus for a railway, as ocean-going steamers could enter into the port at all times.

It may be mentioned that there is, besides the local trade, a large transit trade from the Persian Gulf via Bagdad to Persia; this is computed at a value of about 750,000*l.* a-year.

His Majesty's Government would be glad to know what view Messrs. Ogilvy, Gillanders and Co. would take of such a concession, and whether they would be prepared, and, if so, on what terms, to interest themselves in the undertaking if a concession were obtained from the Turkish Government. His Majesty's Government would be opposed to pressing the Turkish Government to grant kilometric guarantees.

It is particularly requested that the subject may be regarded as strictly confidential.

Foreign Office, March 22, 1910.

[10395]

No. 21.

Sir G. Louther to Sir Edward Grey.—(Received March 26.)

(No. 48.)

(Telegraphic.) P.

Constantinople, March 26, 1910

THE German Ambassador, realising that once the Bagdad-Homs section of the railway is finished the Turks will not be enthusiastic to see the Halif-Bagdad section constructed, has been busily engaged in negotiating with the Porte in order to induce them definitely to guarantee the future construction of the line from Halif to Bagdad. His Excellency appears to be putting this forward with a view to ensuring compliance with our condition for agreement to 4 per cent. customs increase. As the Ambassador's proposal has, apparently, been well received, the Ottoman Government may, I fear, be tempted in return for an immediate advantage, *i.e.*, the 4 per cent., to accept heavy liabilities for the future. Baron Marschall, who has just started for Syria and Egypt, is not expected to return here for a month.

[10397]

No. 22.

Sir G. Louther to Sir Edward Grey.—(Received March 28.)

(No. 50.)

(Telegraphic.) P.

Constantinople, March 28, 1910.

BAGDAD Railway.

Referring to my telegram No. 48, the Minister for Finance has, I understand, more or less agreed that the Bagdad Railway Company shall receive an excess of the tithes collected by the Ottoman debt for fresh loans as well as for the Halif-Bagdad sections' kilometric guarantees. The condition attached to this arrangement is that a guarantee of the Public Debt Administration shall be avoided by the Ministry of Finance receiving the surplus from the debt and paying it to the Bagdad Railway. The surplus of the tithes, after deducting the payment of fixed charges, may be calculated at £ T. 500,000, and this payment would not begin for five years.

[10397]

No. 23.

Sir Edward Grey to Sir G. Louther.

(No. 58.)

(Telegraphic.) P.

Foreign Office, March 30, 1910.

BAGDAD Railway (see your telegrams Nos. 48 and 50 of yesterday).

Of course it makes no difference whether it is the 4 per cent. customs increase or the tithes which are devoted to the railway; the Ottoman Government cannot think that this evasion of our conditions is as good as compliance with them. His Majesty's Government can only consider as improvident such a policy, which pledges prospective revenue for five years ahead. If the proceeds derived from what would involve a heavy additional burden on British trade are to be devoted, either directly or indirectly, to furthering the construction of the Bagdad line, His Majesty's Government cannot

countenance such an increase of burden on our trade. If the information given in your above-mentioned telegrams is correct, His Majesty's Government's consent to the customs increase is rendered out of the question. You should put this point to Rifaat Pasha should he appear to you to be under any misapprehension as to our attitude.

[10397]

No. 24.

Sir Edward Grey to Sir G. Louther.

(No. 59. Confidential.)

(Telegraphic.) P.

Foreign Office, March 30, 1910.

BAGDAD Railway.

Following refers to my telegram No. 58 of to-day: see also my despatch No. 245 of the 18th August last year.

It is evident from information reported by you that the Ottoman Government to all intents and purposes bound themselves again to the very policy which Hilmi Pasha affirmed in conversation with you would never be carried into effect on the lines of the convention of 1903—a policy from which His Majesty's Government have been trying to protect them. I instructed you in my above-mentioned despatch to ask the Grand Vizier for a concession to build a Tigris Valley Railway, and I made it clear to the Turkish Ambassador here on the 23rd September of last year that our eventual decision as to the 4 per cent. customs increase would be influenced by the attitude of the Porte towards this concession as well as towards other British interests in Mesopotamia. The consent of His Majesty's Government to the proposed 4 per cent. customs increase is quite out of the question unless the Turkish Government grant us the concession proposed in my despatch No. 245 (a concession which is essential, in order that we may be on an equal footing in the Persian Gulf region with the promoters of the Bagdad Railway), or unless they contrive to secure us participation on acceptable terms in the Bagdad Railway, and agree to our condition with regard to the borrowing powers of Egypt.

[11445]

No. 25.

Sir Edward Grey to Sir E. Goschen.

(No. 80.)

Sir,

Foreign Office, March 31, 1910.

I OBSERVED to the German chargé d'affaires to-day that, though I was not speaking officially, or with the object of bringing forward anything for discussion, I had been reflecting upon what Count Metternich had said to me as to the non-renewal of the discussions started by Herr von Bethmann-Hollweg last autumn with regard to a general arrangement between England and Germany.

A reduction in naval expenditure was, in our view, essential to any arrangement of this kind, and Count Metternich had reaffirmed the impossibility of altering the German Naval Law. An arrangement of this kind was, therefore, not possible at present; but it seemed to me that the key to smooth relations in many respects between the two countries might be found in a settlement of the Bagdad Railway question. This had been suggested to me by the representations which Germany had recently made here and in St. Petersburg respecting Persia. The German Government did not wish to have a discussion of the Bagdad Railway *à quatre*; but we, on the other hand, though we might discuss the question separately, could not have a settlement except *à quatre*—*i.e.*, we could not have a settlement with Germany ourselves unless France and Russia also had a settlement with Germany. With regard to France, there was no difficulty. With regard to Russia and ourselves, perhaps a settlement might now be made which would include the Persian question.

The German chargé d'affaires received this very sympathetically. He said that he had felt for some time that a frank discussion of Persian affairs, though in a non-committal way, would be desirable to prevent the growth of a bad sentiment. Germany did not wish to be made to feel that a monopoly was being established against her in Persia in favour of England, Russia, and eventually France.

I told him that we were bound to watch very carefully our strategic and political interests. This would not be so necessary if Persia were a strong country, able to hold matters in her own hands; but, as she was so weak, we were obliged to guard against her giving away concessions which would injure us strategically or politically. On

the other hand, however, we had no desire to exclude foreign commerce by establishing a commercial monopoly. There was a certain analogy between the situation in Persia and the situation in Morocco. The analogy was not exact, because in the case of Persia there was no convention of the nature of the Algeiras Act. But, still, as Germany had been able to come to a working arrangement commercially with France about Morocco, I did not see why she should not get on in a similar way with Russia and ourselves about Persia.

The German chargé d'affaires remarked that he had known something of Morocco when he was there, and, in his opinion, there need have been no trouble had it not been for the bad sentiment which was aroused some time ago. He saw no reason why an arrangement should not be come to with regard to Persia, and why the arrangement should not be satisfactory to our position in the Persian Gulf. He understood that we had considered our position in the Gulf to be prejudiced by the Bagdad Railway project.

I said that a great deal of Indian and other British trade went to the Gulf; for generations we had done all the work there, and the Lynch concession had control over one of the means of communication into Mesopotamia. Control over means of communication had much to do with the flow of trade, and if the railway were made down to the Gulf and irrigation took place in Mesopotamia, the means of communication now in our hands would be entirely superseded. It was in this sense that our position in the Gulf was at stake. So far as the northern sections of the railway were concerned, Germany was not displacing anything of ours; but, if Germany had control over the southern section, she would be displacing our vested interests.

The chargé d'affaires told me that it was believed to be our view that, even if Germany did give us control over the southern section, this would not be a concession for which we owed anything to Germany.

I pointed out that the investment of British capital in the completion of the line would be a *quid pro quo*, and so would be our consent to the 4 per cent. increase of the Turkish customs dues, which would help the Turks to find the money for the other sections of the railway.

The chargé d'affaires dwelt upon the difficulty which his Government experienced owing to the pan-German feeling. This feeling made it hard for them to appear to make concessions without getting substantial considerations in return. At the same time, he did not think this was a reason for not preparing the way for a settlement.

I said my reflections had been much influenced by the impression made upon me of a good disposition and a genuine desire to smooth matters on the part of Herr von Bethmann-Hollweg, and I would add of Herr von Schoen also.

I am, &c.
E. GREY.

[10744]

No. 26.

Sir Edward Grey to Sir A. Nicolson.

(No. 156.)

(Telegraphic.) P.

GERMANY and Persia.

See your telegram No. 113 dated the 29th March.

I availed myself of an opportunity of saying in an informal and unofficial manner to the German chargé d'affaires the other day that it seemed to me that the key to an arrangement of all the difficulties connected with Persia was some settlement of the Bagdad Railway question. Otherwise I have heard nothing more from Germany on the subject. In speaking to the German chargé d'affaires, I said that discussion on the subject might take place separately between each party if the Germans were not disposed to admit discussion *à quatre*, but I made it clear that France and Russia must be included in any settlement to which we lent ourselves, and that therefore such settlement would of necessity be *à quatre*. With regard to Persia, I said that I saw no reason why Germany, who had reached a satisfactory *modus vivendi* with France on commercial matters in Morocco, should not do the same in Persia with Great Britain and Russia. We had no intention of establishing a commercial monopoly to the exclusion of others in Persia: we merely found it imperative, in view of Persia's present weakness, to watch our strategical and political interests very closely, and to see that they were not damaged by the granting by Persia of concessions to foreigners.

Our conversation was general and quite informal, but you should inform

Foreign Office, April 1, 1910.

M. Isvolsky of it, as it might be useful, although it had no direct bearing on pending questions. The German chargé d'affaires said he was entirely in sympathy with the views which I expressed.

[11372]

No. 27.

Sir Edward Grey to Sir G. Louther.

(No. 61.)

(Telegraphic.) P.

Foreign Office, April 4, 1910.

PRESENT attitude of His Majesty's Government with regard to question of 4 per cent. customs increase and Bagdad Railway is not open to the interpretation indicated in your telegram No. 51 of the 2nd April. The attitude of His Majesty's Government is favourable to the construction of railways in Mesopotamia, so long as this is not done in a way which might be prejudicial to the interests of British trade. You should explain this to Rifaat Pasha. The only point on which we insist is, that if the customs increase is to be devoted, directly or indirectly, to the further construction of a line which cannot fail, as now controlled, to damage long-established British trade interests in Mesopotamia, we cannot give our consent to that customs increase. If, however, the Ottoman Government accept one of two alternative conditions we will change our attitude. These two conditions are that a substantial interest should be granted to us in a "protective" concession for a railway along the Tigris Valley, or admission on terms acceptable to ourselves to participation in the Gulf sections of the Bagdad Railway.

You should impress upon Ottoman Government that you actually applied for a Tigris Railway concession, and that Hilmi Pasha agreed in principle to your demand (see your telegram No. 335 of the 27th September last). This communication had better be made in writing, in order to avoid all ambiguity.

It is not easy to express an opinion as to last paragraph of your telegram until we know how Minister for Foreign Affairs proposes to safeguard British commercial position, and what are the details of the scheme which he is contemplating.

[12167]

No. 28.

Sir G. Louther to Sir Edward Grey.—(Received April 11.)

(No. 197.)

Sir,

Constantinople, April 2, 1910.

I ARRANGED to see Rifaat Pasha at his house to-day and told him that I wished to make clear the position of His Majesty's Government as regards their consent to the 4 per cent. increase of the customs dues, if it was still the intention of the Ottoman Government to impose that increase, as information had reached us that negotiations were proceeding between the Ottoman Government and the Bagdad Railway Company which, if completed, would, five years hence, give to the Bagdad Railway Company the excess of the tithes for the kilometeric guarantees, amounting to about £ T. 500,000, for the construction of the final portion from El Halif to Bagdad.

Rifaat Pasha made no attempt to deny the existence of the negotiations, but said they had not terminated. He could not see how we could object to the giving of tithes as a guarantee—it was the giving of the 4 per cent. increase about which we had made the reserve. I reminded his Excellency that in the original communication made to your department on the 14th September of last year, requesting agreement to the 4 per cent. increase, the following phrase had occurred: "Il est bien entendu que les sommes provenant de cette majoration ne seront point affectées à des entreprises dans lesquelles le Gouvernement Impérial se trouve déjà engagé, et notamment le chemin de fer de Bagdad." This obviously had been introduced in order to get over the objections that our goods would be handicapped with the extra 4 per cent. in order to benefit the Bagdad Railway, in fact, that the money would go out of the pockets of British merchants into those of German contractors—a position difficult to justify before our Parliament—and it was obvious that the receipts other than the 4 per cent. should be available and be reserved for works of general utility and advancement, and should not be used for furnishing exaggerated guarantees, against which we have always inveighed and against which we have endeavoured to protect them.

Rifaat Pasha said he was the more surprised at the view of His Majesty's Government thus expressed by me, because he had recently instructed Tewfik Pasha to ask at

[1723]

Q

the Foreign Office whether there would be any objection on the part of His Majesty's Government to the ordinary revenues being given as guarantees for the prolongation of the line from Halif to Bagdad, and he had understood from Sir Charles Hardinge that there would be none, and that it was only the 4 per cent. about which we were concerned.

Rifaat Pasha then went on to say that our attitude could only be interpreted by the hypothesis that we wished to obstruct the completion of the line and to leave it, as it were, "in mid-air" at Halif. The Turkish Government were committed in principle to Germany as regards the completion of the line to Bagdad, and they could not risk a disagreement with that Power on the matter. He did not, however, state which is the fact, that the military authorities are pressing very hard for the conclusion of the line to Bagdad. I observed that they were committed when funds were available for the guarantees, and these were not available unless the 4 per cent., or their equivalent, were released. The only way in which they could become available was by some satisfaction being given to British commerce, either by some participation in the Bagdad Railway scheme, or by the granting of a concession to us for a Bagdad-Bussorah Railway. This latter, I reminded his Excellency, had, in principle, been approved of by the ex-Grand Vizier, Hilmi Pasha, after consultation with some of his colleagues. To this his Excellency observed that he had not been one of them, and this was the first he had heard of the suggestion. I then briefly recounted to him my conversations with Hilmi Pasha, the conclusion of which was that Shevket Pasha, who had recently returned from Berlin, should speak to Baron Marschall with a view to bringing about some participation of Great Britain in the continuation of the line. I reminded him of the conversations that had taken place between Sir Ernest Cassell and Dr. Gwinner in Berlin, negotiations not broken off, but only suspended. His Excellency seemed to suggest that it would be time enough to consider this proposal when the Halif-Bagdad section was completed, and, if necessary, Turkey could build the Bagdad-Bussorah line herself. This, however, is obviously out of the question. In the first alternative, we should have no lever left with which to negotiate with the Germans; and in the second, it is clear that they could, once in possession of the line to Bagdad, make their own terms with regard to the Turkish Bagdad-Bussorah line.

I also took occasion to remind His Excellency that Hilmi Pasha, when Grand Vizier, had frequently declared to me that he would never agree to the continuation of the line on the old conditions, to which his Excellency merely observed that Hilmi Pasha was in the habit of giving promises very lightly. But the fact must not be lost sight of that the military element is still supreme, and perhaps makes its influence more felt than it did last autumn.

In the course of the conversation Rifaat Pasha, while still suggesting that a British participation with the Germans in the Halif-Bagdad portion would not get over our objections as to the existence of exaggerated kilometric guarantees asked whether, in the event of such a solution being found, we would grant the 4 per cent.; but pending the clearing up of the misunderstanding referred to, I thought it wiser not to enter on a field which might be fruitful of lengthy discussion, especially as I am not aware as to how far His Majesty's Government would support a British participation that necessarily involves kilometric guarantees.

Finally Rifaat Pasha said that he would refer to Tewfik Pasha's telegram recording his conversation with Sir Charles Hardinge which he had not at hand, and that he would confer with the Grand Vizier, but in a somewhat desperate tone he added that the only way he could see out of the matter would be to abandon the request for the 4 per cent. increase of the customs dues.

It may not be out of place to observe that the entering into arrangements for the completion of the line from El Halif to Bagdad impliedly on the old onerous conditions with the new one, and that too in connection with the 4 per cent., is clearly at variance with what was generally believed to be the intention of their Government last year, namely, not to proceed with the construction of the line beyond Halif, or even Aleppo, unless some considerable modification more favourable to the Ottoman Treasury were brought about.

I have, &c.
GERARD LOWTHER.

[11887]

No. 29.

Sir G. Lowther to Sir Edward Grey.—(Received April 8.)

(No. 198. Confidential.)

Sir,

Constantinople, April 4, 1910.

I HAVE the honour to transmit to you herewith an account, courteously communicated to me by Sir H. Babington Smith, of a conversation that gentleman recently had with the German Ambassador on the subject of the Bagdad Railway.

You will notice that the tone of Baron von Marschall's remarks seems to indicate that, in his opinion, the construction of the line on to Bagdad is assured, so that he is disposed to contemplate with comparative indifference the construction of a line from Bagdad to Homs and Tripoli, whether or not the proposed irrigation schemes are carried into effect, as he does not fear for the German line the competition of this latter railway.

He seems, in fact, to consider the German position to be so strong as to be able to defy competition, though he is evidently apprehensive of being too uncompromising in regard to the Bagdad-Bussorah section, where he recognises that British interests are predominating.

I have, &c.

GERARD LOWTHER.

Enclosure in No. 29.

Memorandum of Conversation between Sir H. Babington Smith and Baron Marschall von Bieberstein on March 24, 1910.

AFTER various other matters had been discussed, I referred to the question of the Bagdad Railway.

Baron Marschall said that he was now, and always had been, in favour of an agreement with England as regards the Bagdad-Gulf section, since English interests were necessarily predominant in that region, owing to the extent of her commerce, her position in the Persian Gulf, and the nearness of her Eastern possessions. He had seen Gwinner's memorandum of his conversation with Sir Ernest Cassel, and Cassel's letter to Gwinner. He quoted the phrase "nothing short of absolute control" from the latter, and said that he thought that condition would create great difficulty. He suggested that "participation" was a better word than "control," and that a participation of 50 per cent. would, in fact, give real control, without offending in the same way the susceptibilities of the Turks as regards spheres of influence. The assent of the Turks was necessary, since, under the Bagdad Convention, the concessionnaires must obtain the assent of the Turks for handing over any part of the concession to another party. I reminded him that it would also be necessary to obtain their assent to the removal of the bar on the use of the Bagdad-Gulf section before the rest of the line was open to traffic. He thought that, if the participation were limited to 50 per cent., the assent of the Turks might be obtained, though he did not know whether Haggi Pasha's views were as favourable to such an arrangement as Hilmi's had been. I said that the matter was in suspense at present for various reasons. It was not a good moment for pursuing the matter at Constantinople; also we were awaiting the result of Money's investigations. I did not refer to the objections of the British Government to any scheme involving the acceptance of the kilometric guarantees in their present form. Baron Marschall agreed that it was not a good moment here, since, he said, there were too many irons in the fire—the new Mahsousseh, the Lynch affair, Willcocks and Mesopotamian irrigation, and the Bagdad-Homs Railway, as well as the question of the Bagdad-Persian Gulf section.

As regards irrigation and the Bagdad-Homs Railway, Ornstein had explained to him the nature of his schemes, and had endeavoured to convince him that the Bagdad-Homs line would not compete with the German Bagdad line. Baron Marschall did not accept this, though he did not lay strong stress on the competitive character. He held that heavy traffic, such as grain, from Bagdad and country to the south of Bagdad would find its natural exit in the Persian Gulf, and he did not expect that a Bagdad-Homs-Tripoli line would secure that traffic. He therefore, if I understood him rightly, considered that the Bagdad-Tripoli line would compete, if it competed at all,

not so much with the Bagdad-Mossoul-Alexandretta line as with the route to Bussorah, but even on this route he thought that water carriage would defeat the railway.

He referred in this connection to article 12 of the Bagdad Convention, which reserves to the Bagdad company the exclusive right to "embranchements reliant le chemin de fer faisant l'objet de la présente convention à la mer en un point situé entre Mersine et Tripolis de Syrie." I suggested that this article did not cover a line reaching the sea at Tripolis itself, since Tripoli was not "un point situé entre Mersine et Tripolis de Syrie;" but Baron Marschall said that, in his opinion, the definition included the two points specified as the limits.

[We had not the exact words before us at the time, but, on looking at them again, I venture to think that the Ambassador's view is quite untenable. Even if the words themselves admitted of any doubt, the meaning is clearly indicated by the fact that, when the convention was signed, a railway was actually in existence from Adana—a point on the line—to Mersina; and it was therefore obviously impossible to reserve to the Bagdad company the exclusive right of making a branch from their railway to Mersina.]

Baron Marschall said that Ornstein had claimed to represent "Bardac's group, including the Ottoman Bank, Cassel, and the Rothschilds." I said he represented Bardac's group, and that though I believed the Ottoman Bank had not taken formal engagements, or committed themselves to the detail of Ornstein's schemes, they were fully aware of what had been done, and there was undoubtedly an understanding that they would take part in the scheme. As regards our position, I thought it well to be frank, and said that there was a general understanding that we would act with the French group as regards irrigation in Mesopotamia, but we were not responsible for the details of Ornstein's proposals, and, indeed, thought that Willcocks's projects and estimates required checking by cooler judgments before they could be taken as a basis of a large scheme. The understanding with the French group referred primarily to Willcocks's irrigation schemes. The railway had been joined with these schemes by the French group, in response, as we are told, to an invitation expressed by the Turks. We were inclined to share Baron Marschall's doubt whether a railway to the Mediterranean could get much of the export traffic from Bagdad; but, if the railway scheme ever came to anything, it could only be in close connection with the irrigation schemes, and we should, of course, regard the understanding for common action with the French as applying to it. Marschall agreed that the railway project was necessarily closely united with the irrigation. He added that, notwithstanding the claim that might be based on article 12 of the Bagdad Convention, he did not think that Germany would oppose the Bagdad-Homs Railway.

Ornstein, who was, he said, "un peu naïf," had suggested that the Germans should participate in the Bagdad-Homs scheme and give up their Bagdad scheme. He evidently did not treat this suggestion seriously.

As regards the attitude of the Turks to the Bagdad-Homs Railway, he thought it probable that they were attracted by the assertion that no kilometre guarantee was claimed; and they would be less favourable to it when they discovered that the arrangement suggested amounted in fact to a guarantee both for construction and working.

The general impression I derived from the conversation was that he was strongly in favour of an arrangement for the Bagdad-Gulf section, and much less hostile than I anticipated to the Bagdad-Homs project.

H. BABINGTON SMITH.

[11888]

No. 30.

Sir G. Lowther to Sir Edward Grey.—(Received April 8.)

(No. 199. Confidential.)

Sir,

Pera, April 4, 1910.

I HAVE the honour to transmit to you herewith an account of a conversation which Sir H. Babington Smith has recently had with the French Ambassador concerning the participation of English and French capitalists in railway and irrigation schemes in Mesopotamia. You will observe that M. Bompard stated that he believed the French group, consisting mainly of the Ottoman Bank and their supporters, and especially of M. Bardac, was regarded favourably by the French Government.

With regard to his Excellency's remarks concerning the move of the Bagdad Railway Company with a view to obtaining guarantees for the construction from Helif to Bagdad, it appears that they have been making successful use of the wording of the additional convention attached to the contract of the 2nd June, 1908, where it states that "l'excédent des revenus concédés à la Dette publique ayant été affectés au prolongement de la ligne de Bagdad, la garantie," &c., &c. The Minister of Finance has it appears, failed to see that this undertaking was limited by the preceding paragraph, which runs: "Le Gouvernement Impérial a décidé de prolonger la ligne de Bagdad depuis Boulgourlou jusqu'à la localité dite Helif . . . et de construire un embranchement à Alep," and was in the belief that it referred to the entirety of the line.

It is not improbable that the desire of the military (to which I have referred in my despatch No. 198 of to-day) would in any case have forced Djavid Bey's hand, just as it may overrule the disinclination of the Parliament to make further allocations for the construction of this railway.

I have, &c.

GERARD LOWTHER.

Enclosure in No. 30.

Conversation between Sir H. Babington Smith and M. Bompard on March 30, 1910.

I INFORMED M. Bompard that, to our great disappointment, Mr. Webb would not be able to go to Mesopotamia this spring, for the purpose of examining Willcocks's projects. He found, after reading Willcocks's reports, that three months at least would be required for the purpose; and he could not absent himself for so long from his work in London for the Egyptian Government. I said I hoped that he might be able to go at the beginning of the cold weather. The delay was much to be regretted, but it was impossible to arrange with anyone else, of sufficient competence, at a moment's notice.

M. Bompard said that delay was unfortunate, as in Paris they were anxious to proceed with the matter—especially with the railway, which interested them most. Their desire was to proceed in concert with an English group. I said that Mr. Money, our railway engineer, was already at Bagdad, examining the line between Bagdad and the Gulf. He would return via Hit and Palmyra in order to examine the route recommended by Willcocks. His report would put us in a better position to judge of the railway. The railway could not, however, be treated apart from the irrigation. M. Bompard agreed that the railway could not be contemplated except in connection with the irrigation.

I said that I expected to be in Paris early in May; and that, before establishing closer relations with the French group, I should like to be certain of the attitude of the French Government towards that group. M. Bompard said that that was a question for Paris, but that he had every reason to believe that the group was "vu d'un bon œil" by the French Government. I said that our communications had been mainly with M. Bardac, and with M. Ornstein, who had represented him at Constantinople; but that I understood from them, and also from M. Deffès, that the Ottoman Bank was behind M. Bardac. M. Bompard at once assented, and said that M. Bardac's relations with the Ottoman Bank were so close that he would never proceed in a matter of this kind without being sure of their co-operation.

M. Bompard said that he understood that the Germans were very near concluding an arrangement for the guarantee of the line as far as Bagdad. Owing to the English condition that the 4 per cent. customs increase should not be used for that guarantee, the Turkish Government had pressed them to give up their lien on the customs for the guarantee as far as Helif. They had cleverly used this to obtain other revenues in substitution, and to apply them to the guarantee not only as far as El Helif, but all the way to Bagdad. I said that my information agreed with his. The revenue which Djavid had agreed to substitute was the surplus of the tithes assigned for the railway guarantees—dating from the year 1331 (1915). M. Bompard expressed the opinion that if this arrangement were confirmed by Parliament, the position of the Germans would be greatly strengthened.

H. BABINGTON SMITH.

[1723]

R

[11933]

No. 31.

*Messrs. Ogilvy, Gillanders and Co. to Foreign Office.—(Received April 8.)**Sun Court, 67, Cornhill, London, E.C.,
April 5, 1910.*

Sir,

WE have given the most careful consideration, consistently with the somewhat limited time which has been at our disposal, to the subject which we had the privilege of discussing on the 22nd ultimo with Mr. Alwyn Parker, and to the Foreign Office memorandum he communicated to us.

We understood that the two principal points upon which we were desired to express an opinion were: Firstly, the probable cost of a railway from Bagdad to Koweit, with an alignment parallel more or less to the River Tigris on the right bank; secondly, the financial basis upon which the capital required for the construction of such a railway would be forthcoming in London. As regards the—

First Point.—We are of opinion that the cost of a single-line metre-gauge railway, as proposed, should not exceed 7,500*l.* per mile, this figure to include rolling-stock, but it would be exclusive of the necessary charges for the expenses of floating the company.

No opinion is offered at the present moment on the most suitable gauge.

This estimate of cost is considered to be sufficient to provide fully for the construction of a bridge over the Euphrates in the neighbourhood of its confluence with the Tigris, but does not contemplate any other very important engineering works. Excluding a bridge over the Euphrates, the metre-gauge line alone should not exceed 7,000*l.* per mile.

Second Point.—We understood that it might be deemed impolitic to press the Ottoman Government to give suitable guarantees.

Although there seems to be good prospect that there should be a fair return upon the capital of the company from the traffic which it would serve, it is considered that, in order to give the company the necessary stability in the London market, there should be something in the nature of a guaranteed minimum return, although it is thought that the obligation under such a guarantee would be nominal.

We therefore suggest that the proposal to bring the railway within the scope of the terms appertaining to Indian railways should be seriously considered, and we shall be prepared to interest ourselves in the flotation of a company to be formed on such a basis.

We suggest that the following might be taken as a preliminary basis for such a company, viz.:—

(a.) Interest on capital during construction at the rate of 4 per cent. per annum to be charged to capital expenditure, as customary.

(b.) After the line is opened throughout for traffic, the Secretary of State for India to guarantee interest on capital at the rate of 3½, or possibly even 3 per cent., according to the exigencies of the money market. Should His Majesty's Government prefer to give a British guarantee, the guaranteed rate of interest would obviously be lower.

In connection with the suggestions for a guarantee from the Secretary of State for India, it may be remarked that to-day's market price of the India 3½ per cent. sterling loan is, say, 95*l.* 10*s.* per cent., and of the 3 per cent. India sterling loan 82*l.* per cent.

(c.) Free grant of land from the Ottoman Government for the purposes of the railway.

(d.) After the earnings of the railway are sufficient to pay a reasonable percentage upon the capital expenditure on the line, the surplus to be divided as follows:—

One-third to the Secretary of State for India;
One-third to the Ottoman Government;
One-third to the railway company.

We have not been able within the short time at our disposal to fully test financial opinion in the City with regard to the possibility of raising the capital in London required for this particular railway on the security of the railway itself. Much would depend upon the backing given by the Governments of Great Britain, India, and Turkey. We, however, consider that the proposed guarantee would ensure cheap construction and economical working, and would give the Governments concerned the most favourable financial results.

The estimate of cost given above is only a preliminary one, in the absence of all surveys, and, accordingly, is made with every reservation. But we have had the opportunity of consulting confidentially a leading firm of engineers who are personally acquainted with the country which the proposed railway would traverse, and they confirm us in our opinion that the railway should ultimately prove a financial success.

We fully believe that the railway would not only enable British interests to retain their present hold over the trade of Mesopotamia, but that it would largely increase the volume of that trade, and we further believe that the project would be popular in London, not only from a financial, but from an Imperial point of view.

We have, &c.

OGILVY, GILLANDERS AND CO.

[11933]

No. 32.

*Mr. Gladstone to Foreign Office.—(Received April 8.)**Sun Court, 67, Cornhill, London,
April 5, 1910.*

Dear Mr. Parker,

TIGRIS Valley Railway.

With reference to our official letter of to-day's date, it may be opportune to anticipate any possible question being asked as to our competence to deal with the matter in question.

We have made a special study of railways in India for many years past, with the result that, although we have not done as much as we could have wished, we have probably had more to do with the construction and financing of Indian railways than all the other Indian firms put together.

Quite recently we were conducting very important negotiations (suspended for the time being) with the Secretary of State for the transfer of one of the principal State railways in India to a London company, for the formation of which we were to be responsible. The total capital outlay on this line amounts to over 15,000,000*l.*, and the further capital required at an early date for extensions, &c., would have run into another 4,000,000*l.* or 5,000,000*l.*

The fact, as we believe it to be, that the Secretary of State for India conducted no serious negotiations with any firm but ourselves, may be taken as an indication as to the view held at the India Office as to our ability to deal with matters of this magnitude.

Hoping to hear further from you in regard to the Tigris Valley Railway, believe me, &c.

HENRY N. GLADSTONE.

[12218]

No. 33.

Sir E. Goschen to Sir Edward Grey.—(Received April 10.)

(No. 25.)

(Telegraphic.) R.

Berlin, April 10, 1910.

CHANCELLOR sent for me this evening.

Referring to your conversation with German chargé d'affaires, he said that he regretted not to have been able to fall in with your views respecting Bagdad Railway. Public opinion would not allow him to give preponderance of influence on most valuable section of railway without very substantial compensation. What His Majesty's Government seemed to regard as such was no compensation at all. It was something for Turks but nothing for Germany.

After listening to my enumeration of advantages to Germany of British participation, he said that they amounted to nothing. I asked him whether he had in his mind any compensation which he and public opinion would deem sufficient. His reply was to the effect that the only way he could make such a great concession palatable to public opinion was to make it form part of a general political understanding such as he had indicated last year. Any other way was impossible. After pointing out once more the difficulties in the way of a political understanding on his lines, I said that surely fact that suggestion of British participation had come from German side would have a tranquillising effect on German public opinion. He said that, on the contrary, in the first place the Deutsche Bank was not Germany, and

secondly, much had changed since Cassel's visit to render German public opinion sensitive with regard to concessions. No one was more anxious than he to have good relations with England, but he could assure me that nothing was more certain than that if he gave away this valuable concession for what public opinion would regard as nothing the relations between the two countries would become far worse than ever.

Alluding to your remarks about Persia, he said that, in his opinion, that was another question which should form part of the general political understanding. His views were that British and Russian Governments should renew assurances as to open door; that Germany should engage not to apply for railway, telegraph, or such like concessions in the British sphere, while, in return, Great Britain should give Germany a fair share of supply of material, &c., in any British enterprises under such concessions. Germany would also ask for equal participation with other third Powers in loans and situations under Persian Government. I also understood his Excellency to say that, as regards Russia, Germany would require that line between Tehran and Khanikin should be constructed, and that on completion of that line and the German Bagdad-Khanikin line carriages and trucks from German line should be allowed to run through to Tehran without prohibitory customs dues or other disadvantages. As long as this was not promised—and the matter was almost as important to British commerce as to German—any assurance of the open door was illusory.

[12142]

No. 34.

Sir A. Nicolson to Sir Edward Grey.—(Received April 11.)

(No. 169.)

Sir,

St. Petersburg, April 2, 1910.

I HAD a conversation this afternoon with M. Isvolsky in regard to possible German action in Persia, and I gave him in a *pro-memoria* the substance of your observations to the German chargé d'affaires, as communicated to me in your telegram No. 156 of the 1st instant. I explained that the conversation with M. de Kühlmann had been quite informal and unofficial, but that you thought it might interest him to know what had passed. M. Isvolsky expressed his best thanks, and remarked that your observations were most interesting. He would, he added, naturally keep me fully informed of the course of any discussions which might take place between him and the German Government in regard to the Bagdad Railway, but he doubted if they would lead to any results. I thought it as well to give M. Isvolsky a summary in writing of your remarks, as they will be a useful guide to him in any conversation he may have with the German Ambassador.

I told M. Isvolsky that I was glad we had come to an agreement as to the text of the communication to be made to the Persian Government, and that the necessary instructions had now been sent to Sir George Barclay and M. Poklewski. It would be well that the Persian Government should receive a warning as soon as possible. His Excellency remarked that as long as Great Britain and Russia held firmly together they were on very strong ground. He had not heard positively that there was any immediate intention on the part of German financiers to make an advance, and they would find the obstacles in their way very serious if they seriously contemplated such a step. As to railway concessions, he was beginning to regard that question with a certain quietude. Even supposing that the Persian Government, in spite of our warnings, granted a concession, it would be impossible for the Germans to put it into execution, in any case until the Bagdad Railway was constructed. The Russian Government would decline to allow any material to go in transit through Russian territory. I remarked that material could be imported from the south by sea. The cost of transport would perhaps be very great for northern lines, but for lines in the south the same difficulties would not exist.

M. Isvolsky remarked that in his view the action of Germany was prompted by various motives. The Government perhaps wished to show the German public that they were ready to encourage and promote German enterprises in a new field; and they also might think that they could put pressure on Russia to be conciliatory in matters connected with the Bagdad Railway. There was, further, the desire to impress on Russia that her understanding with England did not preserve her from admonitions from Berlin, and there was possibly a hope that some divergence of views might be developed between England and Russia. "Enfin," he said, "il y a un peu de tout" in this last move of Germany.

I observed that the press had now got wind of what was passing, and he said that some Russian journals had already taken up the matter.

I asked if Count Pourtalès had again referred to the subject, and he replied in the negative. He expects to receive a written communication before long, and I think he is quite prepared for it not being couched in very agreeable terms.

I have, &c.

A. NICOLSON.

[12136]

No. 35.

Sir E. Goschen to Sir Edward Grey.—(Received April 11.)

(No. 99. Very Confidential.)

Sir,

Berlin, April 8, 1910.

DURING a visit I paid to Herr Stemrich yesterday, he alluded to the conversation which had taken place between you and the German chargé d'affaires on the Bagdad Railway and your suggestion that perhaps some arrangement might be made which would include the Persian question. He said that I knew very well that no one desired more than he did to see good relations established between Germany and England, but that the attacks recently levelled against the Imperial Foreign Office rendered it excessively difficult for the Imperial Government to come to any arrangements which would entail concessions on their part, particularly if there was no substantial consideration in return to be placed on the German side of the account. The Bagdad Railway loomed very largely in the public mind at present as a purely German undertaking; speaking for himself, and he had no authority to speak for the Government, he considered that any concession made with regard to the railway would be severely criticised by public opinion, and would be held up as yet another example of weakness in the Imperial foreign policy. I said that surely he recognised that in the case that an arrangement was come to giving us control over the southern section of the line there would be something to show on the German side of the account, as, as you had pointed out to M. Kühlmann, such an arrangement would facilitate the completion of the whole line, and place us in a position to give our consent to the 4 per cent. increase of the Turkish customs dues.

Herr Stemrich replied that this might be so, but that he was quite certain, in his mind, that public opinion would not view the matter in that light or see any *quid pro quo* for what would be regarded as a concession. I replied that if the Imperial Government recognised that the *quid pro quo* existed and was sufficient it would not perhaps be difficult to educate public opinion and bring it to a proper knowledge of how the matter really stood. He replied that, on the contrary it would be extremely difficult; it was not only the Pan-Germans who were ill-disposed towards the Imperial Government for its management of foreign affairs, but unfortunately there was a general feeling amongst the influential industrial classes that German interests abroad were not meeting with sufficient support. I asked Herr Stemrich whether I was to gather from his remarks that he considered the present moment inopportune for any conversations with regard to the Bagdad Railway and kindred matters. He said that he would not go so far as that, as it was of course quite possible by mutual consideration of each other's interests for the two Governments to come to some understanding; but he had wished to show me that, for the reasons he had given, the Imperial Government had to move very carefully and avoid anything that might have the appearance of concessions to foreign Powers without due compensation in return. He begged me at the same time to regard his observations as confidential, and as merely the expression of his own personal opinions. I would hear the views of the Imperial Government from the Chancellor, who he knew would shortly wish to have a conversation with me on these subjects.

As an example of the interest which the public is now taking in the railway question, Herr Stemrich sent me this morning the enclosed article by Professor Wirth, a well-known publicist, whose writings, Herr Stemrich says, are eagerly read by a very wide circle.

I have, &c.

W. E. GOSCHEN.

[1723]

S

Enclosure in No. 35.

Extract from "Der Tag" of April 6, 1910.

TURKISH RAILWAYS.

(Translation.)

MODERN imperialism, it is true, still fights its battles with bullets and bayonets, but to a far greater extent with other weapons such as the export of goods, shipping subsidies, tariff policies, and State loans. Instead of fighting with charger and chariot, it uses steam engines and railway carriages. The Cape to Cairo line paves the way for dominion in Africa. The French are going to encircle Southern Morocco with a railway from Colomb-Béchar to the Atlantic Ocean. In the same way Germany, by means of the Bagdad Railway, is to achieve the economic conquest of Asiatic Turkey. And the others show no readiness to be left behind and are trying to make acquisitions of their own or at any rate to rob us of ours. The Bagdad Railway is threatened on all sides. The Lynch concession, it is true, has not been granted yet. Herr von Schoen's statements and the emphatic utterances of responsible persons in Turkey leave no room for doubt on this point. And yet there can be no doubt that it will be granted. And thus the Mesopotamian sphere of influence is lost to us. The Bagdad Railway with its economic domain becomes like a champagne bottle corked with a beer bung. And still more. An Anglo-American group is planning a new line which will cripple half the Bagdad Railway. The line is to run from Damascus (not from Aleppo as has been stated) via Palmyra to Bussorah. He always wins who gets to the sea first. The new line will, however, be considerably shorter than the Bagdad line when the latter is complete. It will be almost like the segment of a circular arch. And therefore it is to be feared that the Anglo-Saxons will build faster than we. It must be realised how incredibly slowly the Anatolian and Bagdad Railway has been built. We have only achieved a sixteenth of what the Russians did in the same space of time in Asia. Even the leisurely Turks in the last days of Abdul Hamid began to despise us for our snail's pace. "Either you have no money, or you are afraid of foreign Powers," they said. And further competitors threaten us in Northern Arabia. The English want to build a line from Suez to Bussorah and thence on to Southern Persia. One would think that little or nothing is to be got out of the Northern Arabian deserts. The district, indeed, is unfertile and thinly populated. Apart from the line being of no small worth from the point of view of commercial politics and for strategical reasons, large petroleum wells have been bored in Northern Arabia. They are the chief reason for the construction of the line. The Standard Oil Company has also a hand in the business then. The Standard Oil Company have also not overlooked Eastern Asia Minor. They are eagerly working a concession for a railway from Siwa to Lake Van, chiefly on account of the petroleum to be found there. The project is a significant indication of the encroachment of American imperialism into the Old World. Recently an entirely new plan of a gigantic nature has been formed, which I heard of quite by chance. The English want to build a railway from the Black Sea to the Persian Gulf. It is impossible to foresee the outcome of this plan.

[12370]

No. 36.

Sir A. Nicolson to Sir Edward Grey.—(Received April 11.)

(No. 122.)

(Telegraphic.) P.

BAGDAD Railway.

St. Petersburg, April 11, 1910.

Acting Minister for Foreign Affairs informed me to-day that the Russian Ambassador at Constantinople had telegraphed respecting an arrangement said to have been arrived at between the German and Turkish Governments whereby there would be no further difficulties in the way of the construction of the line as far as Bagdad, and whereby guarantees would be furnished from the surplus of ceded revenues. He enquired whether I had received any information on the subject. I replied in the negative. M. Sazonow added that, according to his information, a protest against the arrangement had been entered by His Majesty's Ambassador at Constantinople.

[12370]

No. 37.

Sir Edward Grey to Sir A. Nicolson.

(No. 169.)

(Telegraphic.) P.

Foreign Office, April 11, 1910.

TURCO-GERMAN understanding regarding continuation of the Bagdad Railway. It appeared from a report lately made by Sir G. Lowther that negotiations were in progress at Constantinople for affecting to the guarantees for the sections of the line west of Bagdad the surplus of the tithes (not of the ceded revenues as stated in your telegram No. 122 of to-day). The arrangement was to take effect in five years. Sir G. Lowther was instructed to point out to the Porte that, as the construction of a railway to the Gulf under exclusively German control would endanger our trade interests in Mesopotamia, our consent to the 4 per cent. increase must be conditional on such a solution of the Bagdad Railway question as would safeguard our interests. Further, he was to intimate that in the present case an arrangement as to additional guarantees, such as that reported to be under discussion, would certainly make our consent impossible. It was immaterial whether the railway was completed by means of revenues raised by the imposition of additional burdens on British trade or by means of other revenues set free by the customs increase in question. In either case we could not consent to such a penalisation of our commerce, so long as the railway was to be continued under its present control.

In reply Rifaat Pasha contradicted the report that a definite arrangement had been arrived at, while conceding that pourparlers had been carried on on the subject.

[12480]

No. 38.

Sir E. Goschen to Sir Edward Grey.—(Received April 12.)

(No. 26.)

(Telegraphic.) R.

Berlin, April 12, 1910.

MY telegram No. 25.

Following is more detailed account of the Chancellor's statements respecting Russia [?] and Persia. His Excellency said that German offer of 1906 was still open, viz., that Germany would abstain from demanding concessions for railways, roads, and telegraphs in Russian sphere, demanding in return absolute equality in commercial matters, the junction of Russian projected railways in North Persia with German projected Bagdad-Khanikin line, and assurance that international trade over that line should not be impeded by tariff and customs measures. Foreign trade with North Persia was at present impeded by prohibition since 1883 to transport foreign goods through Transcaucasia, thus leaving caravan road of Trebizond, Erzeroum, Tabreez, and Tehran only foreign trade route. High rate on this road forbade competition with Transcaucasian route. If now Russia completed North Persia railway system by line from Julfa to Tehran, and did not build Bagdad-Khanikin line, she practically secured trade monopoly in North Persia. M. Isvolsky was now holding out prospect of above proposals being answered. He hoped that answer would be favourable, as it would clear the way for an understanding on similar lines with Great Britain.

[12480]

No. 39.

Sir Edward Grey to Sir A. Nicolson.

(No. 174. Secret.)

(Telegraphic.) P.

Foreign Office, April 13, 1910.

GERMAN policy in Persia and Bagdad Railway.

Berlin telegrams of the 10th and 12th instant, Nos. 25 and 26.

Please acquaint Russian Government of substance of above telegrams, and express a hope that Russia will communicate to us anything that may have passed between the German and Russian Governments.

Sir Edward Grey to Sir A. Nicolson.

(No. 175.)

(Telegraphic.) P.

Foreign Office, April 13, 1910.

GERMAN policy in Persia and Bagdad Railway.

Please refer to my preceding telegrams on the subject. We desire a frank exchange of views with Russia; but on the following grounds the German proposals appear to me of very doubtful value:—

The Bagdad Railway and any concession relating to it appear to have been ignored by the German Government.

They, however, start from the assumption that a future Tehran-Khanikin line will, at their demand, be constructed with the German gauge, while, in addition, the Bagdad-Khanikin line is to be constructed and controlled by Germany.

This question seems to us to call for great firmness and caution on the part of the British and Russian Governments. We cannot contemplate the penalisation of our trade by any agreement with the German Government for the regulation of rates, and we do not think that any other position than that shared by other Powers should be given to Germany in Persia. We do not, however, wish to hinder, in any way, the conclusion of an arrangement between Germany and Russia, so long as these points are borne in mind.

It is, however, different when we come to consider the British sphere.

A serious measure of compensation for the concessions which they claim does not, it would seem from Sir E. Goschen's telegrams, enter into the scheme of the German Government.

I have already acquainted your Excellency with my views on the question of a general political understanding, but now such an understanding is represented as the absolute *sine quâ non* of an arrangement of the Bagdad Railway question.

If, according to the German proposals, we give Germany a share in any concession we obtain in our sphere, they will consent not to attempt to obtain concessions, railway or other, there.

Thus, under this arrangement, Germany could continue the Bagdad line along the Gulf, or build a line to connect the frontier of the Russian sphere with Bushire—concessions which would endanger our whole position in the Gulf region. In such concessions we should have no share, while the only line within our sphere which has been seriously projected is a line inland from Bunder Abbas.

Further, we could not consider such an arrangement in keeping with the obligations which we are under to foreign Powers other than Germany, for we should thereby be creating for Germany a special position in Persia.

[12751]

No. 41.

Sir A. Nicolson to Sir Edward Grey.—(Received April 14.)

(No. 124.)

(Telegraphic.) P.

St. Petersburg, April 14, 1910.

ACTIVITY of Germany in Persian affairs.

I saw the Acting Minister for Foreign Affairs this afternoon and communicated to him the substance of Sir E. Goschen's telegrams Nos. 25 and 26. I gave him at the same time a summary of your telegram No. 174 containing your observations on the German attitude.

M. Sazonow expressed great gratitude for the communication, and said, in reply to my enquiry, that he had received no fresh information on the subject from Berlin, but that the German Ambassador here had told him verbally that he was willing to reopen the conversations on the subject which had taken place in 1907 and had then been interrupted. Germany, Count de Pourtalès had said, would not ask for any concessions in the Russian sphere if Russia, on her side, would undertake that any railways which she might construct in North Persia would be linked up with the German line from Bagdad. His Excellency suggested also that no opposition should be raised by Russia to the employment by the Persian Government of one or two Germans.

I impressed upon M. Sazonow the absolute necessity of the British and Russian Governments maintaining the closest solidarity, and I said that I hoped that no step would be taken by the Russian Government without previous consultation with us. I

consider this very necessary, though I did not say so to M. Sazonow, as otherwise Germany might lead the Russian Government into making arrangements inconvenient to Great Britain. M. Sazonow replied that he agreed thoroughly with what I had said, and that it was most desirable that there should be the closest understanding and the fullest exchange of views between the two Governments. On my remarking that at my audience to-morrow I proposed to speak to the Emperor in that sense, M. Sazonow replied that he hoped that I would do so.

During our conversation I referred to the Russian troops at Kazvin, and expressed a hope that they would be withdrawn without delay. M. Sazonow replied that his Government had now imposed two conditions on the withdrawal of these troops: 1. That the question of the attack made on the Russian consul-general while on his way to Bushire should be settled. 2. That arrangements should be made for the retention in the Cossack Brigade of the Russian officers. M. Sazonow said that he personally was rather sorry that these conditions had been laid down, and that he would enquire whether they had actually been communicated to the Persian Government. If not, he would abandon them. I said that it would be well to do so and to get the Russian troops out of Kazvin.

[12895]

No. 42.

Sir A. Nicolson to Sir Edward Grey.—(Received April 15.)

(No. 125.)

(Telegraphic.) P.

St. Petersburg, April 15, 1910.

AT the audience which I had of the Emperor this morning I explained to His Majesty the German Government's proposals, as indicated by the Chancellor in his conversation with Sir E. Goschen. The Emperor observed that the German request for participation in British concessions in the British sphere was a remarkable suggestion for them to make. One of the German Government's objects, His Majesty remarked, was to drive a wedge between England and Russia, an operation which they had already on more than one occasion endeavoured to perform. The Emperor stated emphatically that the two Governments must keep one another frankly and fully informed and must present a united front. This was the means by which Germany could best be induced to modify her present attitude, an attitude which, I could see, was by no means pleasing to His Majesty. The memoranda which I left yesterday with M. Sazonow will be sent in to the Emperor this afternoon, and I feel sure that the perusal of these documents, in addition to my statements, will strengthen His Majesty in his intention of working with us in cordial and united co-operation.

The Emperor told me that his attention had been called by M. Isvolsky to the parallel shown by Germany's action on the present occasion and her action with regard to Morocco. His Majesty observed that in the Morocco question Germany's action had only resulted in establishing yet closer relations between France and Great Britain. I expressed a hope that the result would be similar in the present case, and His Majesty replied that it would undoubtedly be so. He had heard that the German Ambassador here was now adopting a more conciliatory tone. To this I replied that the conciliatory phrases which a representative here might let drop in conversation were of less importance than what was said in Berlin.

The seriousness of Germany's recent action is fully appreciated by the Emperor.

His Majesty expressed his high satisfaction with the terms in which you answered the questions on Persian affairs which were asked recently in the House of Commons.

Affairs in the Near and Far East were also touched upon by His Majesty, who said that an excellent effect had been produced by the visit of the King of the Bulgarians to Constantinople. The King had told the Russian Ambassador there that his views as to the aims and policy of Turkey had undergone a complete transformation, and he had admitted that he had been wrong in his former appreciation of them. The Emperor trusted that it was recognised by His Majesty's Government that nothing but pacific advice had been given by Russia to both Bulgaria and Servia, and that the visits to St. Petersburg of the two sovereigns from the Balkans could only be productive of good and tend to the general peace. It was not difficult for me to reassure His Majesty as to the views of His Majesty's Government on these points.

With regard to the Far East, His Majesty expressed his firm conviction that there was no danger of any aggressive designs on the part of Japan. Japan, on the contrary, was desirous of giving a still further development to the arrangement which

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had been arrived at in 1907. The Emperor said that he was grateful for the attitude which His Majesty's Government had adopted on the Manchurian railways question.

The moment was most opportune for my audience, and it was entirely satisfactory.

The Emperor, I should add, is very anxious that the scheme for linking up the Russian and Indian railway systems should not be entirely lost sight of.

[13026]

No. 43.

Sir G. Barclay to Sir Edward Grey.—(Received April 17.)

(No. 170.)

(Telegraphic.) P.

Tehran, April 17, 1910.

IN continuation of my immediately preceding telegram of to-day's date, I have the honour to report that when Russian Government approved M. Poklewski's action (please see my telegram No. 150 of the 9th April) they suggested that it should be supplemented by a declaration that Russia would regard a concession for the extension of Bagdad Railway into Russian zone as an unfriendly act, and they asked my Russian colleague what further threats could be employed in the event of Persian Government ignoring this warning.

In reply, my Russian colleague proposes to advise that we should defer action until formation of new Cabinet, and the fear of negotiation of loans or concessions with third parties, in defiance of our recent statement of policy, should be justified by its composition, we should declare to Persian Government that the joint Powers are firmly resolved to uphold the policy set forth in their joint note, and to shrink from no steps which the protection of their interests may demand in the event of Persian Government acting counter to this policy.

M. Poklewski proposes to add in reply to the enquiry as to further threats that Russian Government must be prepared to threaten either boycott of new Cabinet or seizure of customs, or advance of Russian troops to Tehran if the declaration he suggests is made.

[13071]

No. 44.

Sir E. Goschen to Sir Edward Grey.—(Received April 18.)

(No. 102. Very Confidential.)

Sir,

Berlin, April 11, 1910.

I HAVE the honour to report that, at the Imperial Chancellor's request, I called upon his Excellency yesterday evening. He said that he wished to speak to me on the subject of the Bagdad Railway question, and that he also desired to say a few words with regard to Persia and Germany's position in that country.

His Excellency began the conversation by stating that he was grateful for the frank and open manner in which you had stated your views on these subjects to the German chargé d'affaires. He would be equally frank with me, and if his views did not agree altogether with those of His Majesty's Government, he would ask me to bear in mind that it was none the less the sincere desire of both Herr von Schoen and himself to establish good relations between Germany and Great Britain. This desire had been the mainspring of his policy ever since he had become Imperial Chancellor, not only from personal inclinations, but because he had realised the all-importance of the question of Anglo-German relations. It was not a question which concerned the two nations alone, it was not even only a European question, it was a question which concerned the whole world. The main point was to create an atmosphere of good feeling between the two peoples, and this could only be done by a process of give and take, by mutual concessions, and by making an arrangement which would not only be acceptable to the two Governments, but satisfactory to the two nations behind them.

He had rather gathered that His Majesty's Government were of opinion that the naval proposals which he had made last year were not such as would recommend themselves to the British public. He feared he must say that the idea that Germany should hand over the southern section of the Bagdad Railway to Great Britain would be equally unacceptable to the people of Germany. The Bagdad Railway had become an Imperial idea in Germany; it was regarded as a great national undertaking, as I had probably noticed from the newspapers. The people regarded any proceedings connected with it with a very watchful and suspicious eye. This was, in his opinion, unfortunate,

but he felt bound to add that this regrettable feeling was chiefly due to the opposition shown by Great Britain to the undertaking from its very commencement—an attitude which was subsequently adopted by Russia and France. How would it be then if it was suddenly announced that the Imperial Government had handed over the most valuable section of the whole line to the very Power who had all along been the most bitter opponent of the scheme, and placed every obstacle in the way of its fulfilment? The Imperial Government would first be asked what return they had secured for such an enormous concession. The reply would have to be, "None whatever"; and the anger of the nation would have no bounds. Their anger, moreover, would not only be directed against the Imperial Government, but also against Great Britain. Under such circumstances the relations between the two countries, instead of being improved, would be far worse than before. I pointed out to his Excellency that this might possibly be so if the people were told that they got no return for the concession. The Imperial Government would, however, be able to show that they had secured very important advantages in return for their consent to British participation. They would be able to point out, amongst other advantages, that the consent of His Majesty's Government to the 4 per cent. increase of the Turkish customs dues—in itself a great concession in view of the great preponderance of British trade interests in Turkey—would place the Ottoman Government in a position to find the money for the other sections of the railway, and thus facilitate their construction, and that the investment of British capital in a portion of the line would indubitably give life to the whole undertaking, and enable the whole railway to be completed in a far shorter period than would be otherwise possible. His Excellency replied that all this amounted practically to nothing, and would be regarded as nothing by German public opinion. The withdrawal of our opposition to the 4 per cent. increase of Turkish customs dues would be a concession to Turkey—not to Germany; while the shortening of the period required for the completion of the line was a matter of convenience certainly, but not of vital necessity. The line would be completed in any case, and whether a few years earlier or later was a matter of comparatively little moment. If he was to lay such considerations before Parliament and the public as an adequate return for such a great concession, he would be laughed out of office. His Excellency then went at some length into the reasons why the Imperial Government had to be especially careful at this moment with regard to concessions to foreign Powers; and reminded me of all the attacks which had been made upon him, directly and indirectly, on account of the alleged want of backbone in his foreign policy. I ventured to observe to his Excellency that the opinion of the public upon any given question depended very much on the way it was put before them. He said there was some truth in that remark, but that it did not apply in the present case, when the mind of the people was made up and public feeling was so strong. I replied that surely if the people knew, or were brought to know, that the suggestion of British participation had come from the German side, and from people whose interests were bound up in the undertaking, they would realise that the advantages of the transaction were not likely to be wholly on the side of Great Britain. The Chancellor answered that M. Gwinner was not the Imperial Government, nor the Deutsche Bank the German Empire. I said that Herr von Schoen had often spoken to me of the conversations between M. Gwinner and Sir E. Cassel, and had never expressed disapproval of them; he had certainly said that the matter would ultimately have to be discussed between the two Governments; but surely if the Imperial Government, who were cognisant of what was passing, had held such strong views on the subject as those which he had just laid before me, it would have simplified the situation if they had let the two groups know that nothing could come of their negotiations. His Excellency replied that since Sir E. Cassel's visit the situation had changed. They had had the Mannesmann question and the violent attacks on the Imperial Government to which it had given rise. He then spoke more to the point, and said: "After all, you must remember that the concession is ours; that we have it in our pocket; and the very fact that British interests in the Persian Gulf make His Majesty's Government desirous of controlling the southern section of the line is a clear proof that what they require is worth a substantial return." I subsequently asked his Excellency whether he had in his mind any return which he and the German public would consider adequate. He replied that after much consideration and anxious thought he had come to the conclusion that the only way in which an agreement respecting the Bagdad Railway in the form His Majesty's Government desired could be made palatable to the German people would be that it should form part of a general political understanding between Great Britain and Germany. I asked his Excellency to what sort of a political understanding he alluded. Did he mean a regular *entente* between the two Powers? He replied that he meant the kind

of understanding which he had proposed last year. I reminded his Excellency that in our former conversations I had placed before him some of the difficulties in the way of such an understanding. He replied that he could not think they were in any way insurmountable; in any case he did not, to his great regret, see any other way of meeting the wishes of His Majesty's Government with regard to the Bagdad Railway. Nothing less than what he proposed would satisfy public opinion, or place him beyond the reproach of yielding or truckling to Great Britain.

As his Excellency seemed to wish for an expression of opinion from me as to the merits of his proposal, I said that beyond pointing out to him as I had done that there were great difficulties connected with its acceptance, it was hardly for me to pronounce upon it, and I could only promise to put it as fairly and accurately as I could before His Majesty's Government.

The Chancellor then proceeded to discuss the Persian question, to which you had referred in your conversation with the German chargé d'affaires. He said that this question, which in his opinion offered no great difficulty, should also form part of the political understanding he had suggested. German interests in Persia were purely commercial, and Germany had no desire to acquire political influence. His views were that an arrangement might be made somewhat on the following lines: Germany should engage not to apply for railway, telegraph, or road concessions in what was termed the British sphere of influence; that in return His Majesty's Government should give an assurance that German capital and German industry should not be excluded from a fair share of the contracts and supply of material necessary for the working of such concessions of the above nature as His Majesty's Government might obtain from the Persian Government. Germany would also wish that His Majesty's Government should renew their assurances with regard to the open door in Persia, by which he meant, amongst other things, that Germany should have equal participation with other third Powers in loans and such official positions under the Persian Government as might be open to foreigners.

The Chancellor proceeded to explain that the arrangement he had just proposed was on similar lines to the proposals which the Imperial Government had made to the Russian Government in 1906, proposals to which M. Isvolsky had up till now not replied. These proposals were still open, and in return for the concessions which Germany was ready to make—and they must be regarded as concessions, as Germany really had an entirely free hand in Persia—the Imperial Government would require that the railway projected by Russia between Tehran and Khanekin should be constructed, and that on its completion an assurance should be given that the Russian Government would not throw obstacles in the way of international traffic between Bagdad and Tehran by special tariff and customs measures. His Excellency explained that an assurance of this kind was of as much importance to Great Britain as to Germany. Ever since the year 1883 the transport through Trans-Caucasia of foreign merchandise for North Persia had been prohibited by Russia, thus leaving the old caravan road to Tehran through Trebizond, Erzeroum, Tabreez, the only route available to foreign trade. The heavy transport rates on the caravan road were an effectual bar to any competition with the Trans-Caucasian routes; if therefore Russia now completed the North Persian railway system by the addition of a line from Julfa to Tehran, and at the same time did not construct the line from Tehran to Khanekin, she would practically assure to herself a trade monopoly in North Persia. Under such circumstances an assurance of the open door would be illusory.

His Excellency added that he had now reason to believe that M. Isvolsky contemplated sending his long-delayed answer to the German proposals, and he hoped very much that it would be of a satisfactory nature, all the more that an understanding with Russia would obviously smooth the way to an arrangement with Great Britain on the lines he had indicated. This was the close of our conversation.

As I saw the Chancellor spoke from copious type-written notes, I told his Excellency that, in view of the length and importance of the conversation, it would perhaps be safer, and ensure the accurate repetition of his views, if he would let me have a memorandum of what he had said. His Excellency kindly said that he would do so, and would, if possible, send me a memorandum the following day. As, however, it did not arrive, and I had to go to Mecklenburg-Strelitz on the day after, I thought it best to wait no longer and to telegraph to you the chief points of the conversation as I remembered them. On my return from Neu-Strelitz Herr von Stumm brought me round the memorandum, and as I found that the Chancellor had somewhat amplified the part dealing with Russia, it seemed to me advisable to send you an additional telegram giving more or less his Excellency's exact words.

I have now the honour to transmit herewith copy and translation of the Chancellor's memorandum, which, except for the amplification as regards Russia, agrees in substance with my first telegram.

The memorandum naturally differs from the conversation as regards the form and order in which the various statements and arguments were developed. The substance is, however, the same, with perhaps one exception. According to my recollection, the Chancellor, in his conversation with me, laid more stress on the necessity for Russia to build the Tehran-Khanikin Railway than would appear from the memorandum. But I would venture to observe that the pointed allusion made by the Chancellor to the consequences which would ensue if the Russian Government determined to build a line from Julfa to Tehran, and to leave the Tehran-Khanikin line unbuilt, would seem to show that my recollection was correct, and that the construction of the latter line was put forward by his Excellency as one of the requirements of the Imperial Government.

I have, &c.

W. E. GOSCHEN.

Enclosure in No. 44.

Memorandum by the German Chancellor.

ICH habe die mir durch den Kaiserlichen Geschäftsträger in London übermittelten Anregungen Sir Edward Grey's mit Interesse entgegengenommen und sie als Beweis eines Vertrauens begrüßt, das ich aufrichtig erwidere. Ich bin gern bereit, den Anregungen Sir Edward's zu entsprechen und meinen Standpunkt in der Bagdadbahn- und der persischen Frage vertraulich und vollständig darzulegen.

Aus den Mitteilungen des Geschäftsträgers ersehe ich, dass Sir Edward Grey die vorbehaltlose Zustimmung Englands zu der geplanten türkischen Zollerhöhung als genügende Kompensation für die Überlassung des überwiegenden Einflusses an England in der Golfstrecke der Bagdadbahn ansieht. Dieser Ansicht kann ich nicht beipflichten.

Der Bagdadbahn-Gesellschaft ist seitens der Pforte die Konzession zum Bau der Bahn von Konia bis zu einem noch zu bestimmenden Punkte des persischen Golfs definitiv erteilt worden. Die Strecke von Bagdad bis zum Golf stellt einen der wichtigsten und zukunftsreichsten Teile der ganzen Linie dar. Angesichts dieser Tatsachen würde jede Vereinbarung, welche England für diese Strecke den überwiegenden Einfluss einräumt, seitens der deutschen öffentlichen Meinung als eine schwächliche Nachgiebigkeit der Kaiserlichen Regierung gegenüber England angesehen werden. Wie sehr ich mit der deutschen öffentlichen Meinung zu rechnen habe, ist Sir Edward Grey nicht entgangen und übrigens bei den Verhandlungen über die Mannesmann'schen Minenansprüche in Marokko neuerdings ersichtlich geworden. Die Bagdadbahnfrage wird aber seitens der deutschen öffentlichen Meinung mit ganz besonderem Interesse verfolgt. Es entspricht nur den Tatsachen, wenn ich behaupte, dass diese Frage durch die Presse namentlich infolge der Opposition der englischen Regierung gegen das Projekt, eine Opposition, die auch von Russland und Frankreich aufgenommen worden ist—sehr gegen den Wunsch der Kaiserlichen Regierung und der beteiligten Finanzkreise—fast zu einer nationalen Frage ersten Ranges gestempelt worden ist. Bei dieser Sachlage würden selbst ruhig und massvoll urteilende Deutsche ein Spezialabkommen über die Bahn nicht verstehen, bei welchem die Kaiserliche Regierung ohne genügendes Äquivalent zu gunsten Englands auf Rechte verzichtet, die Pforte in Ausübung ihrer Souveränität erteilt hat. Als genügendes Äquivalent könnte aber die vorbehaltlose Zustimmung Englands zur 4^o/igen türkischen Zollerhöhung keinesfalls angesehen werden. Diese Massnahme würde vielmehr im wesentlichen ein Entgegenkommen Englands auf türkische Wünsche darstellen, indem es der Pforte die Erfüllung der gegenüber der Bagdadbahn-Gesellschaft übernommenen Verpflichtungen erleichterte. Selbst durch Aufrechterhaltung des Vorbehalts würde der Bahnbau übrigens nur verzögert, aber keineswegs gänzlich vereitelt werden können, da die Pforte allmählich in die Lage kommen dürfte, den gegenüber der Bagdadbahn-Gesellschaft eingegangenen Verpflichtungen auf anderem Wege gerecht zu werden.

Kann hiernach die vorbehaltlose Zustimmung zur Zollerhöhung als Äquivalent nicht in Betracht kommen, so ist zu prüfen, ob für den von England erwünschten Verzicht auf die deutsche Präponderanz in der Golfstrecke anderweitige Konzessionen

zu finden sind, die als gleichwertige englische Gegenleistung angesehen werden könnten.

Ich habe diese Frage eingehend erwogen, mich indes davon überzeugen müssen, dass sich Gegenleistungen nicht ermitteln lassen, die den Anschluss eines Separatabkommens über die Bagdadbahn vom deutschen Standpunkte rechtfertigen könnten. Ich würde mir daher durch Abschluss eines Separatabkommens den begründeten Vorwurf der Schwäche und übertriebenen Nachgiebigkeit gegenüber England zuziehen. Wie Sir Edward Grey bekannt ist, hege ich den aufrichtigen Wunsch nach dauernder Herstellung vertrauensvoller und freundschaftlicher Beziehungen zwischen Deutschland und England. Durch jenen Vorwurf würde ich aber die Erfüllung dieses Wunsches zweifellos vereiteln und der deutschen öffentlichen Meinung einen ernststen Grund zur Animosität nicht nur gegen mich, sondern auch gegen England geben. Unter diesen Umständen sehe ich zu meinem Bedauern keine andere Möglichkeit zu einer Verständigung über die Bagdadbahn, als den Abschluss eines politischen Gesamt- abkommens zwischen Deutschland und England, in das diese Frage einzureihen wäre. Nur ein derartiges Gesamt- abkommen würde mich nach meiner Überzeugung gegen den Vorwurf sicherstellen können, dass ich in der Bagdadbahn-Frage einen offenen Rückzug vor England angetreten habe.

Eine Verständigung über Persien dürfte dagegen kaum besondere Schwierigkeiten bieten. Deutschland verfolgt in Persien wirtschaftliche Ziele. Seinen Interessen ist gedient, wenn England und Russland den in ihrem Abkommen vom 31. August, 1907, abgegebenen Versicherungen entsprechend die Unabhängigkeit und Integrität Persiens achten und die Tür dort für den Handel aller Nationen offen halten.

Herr Iswolsky hat bereits im Jahre 1906 der Kaiserlichen Regierung den Vorschlag zu einer Verständigung über Persien unterbreitet. Die Kaiserliche Regierung hat sich daraufhin bereit erklärt, zugunsten Russlands auf Konzessionen für Eisenbahnen, Strassen und Telegraphen in einem näher zu bestimmenden Gebiet Nordpersiens zu verzichten. Sie verlangt dafür im wesentlichen volle Anerkennung ihrer Gleichberechtigung in allen anderen wirtschaftlichen Fragen, Anschluss der von Russland in Nordpersien projektierten Eisenbahnen an die künftige Linie Bagdad-Hamkin und die Zusicherung, dass Russland den internationalen Handelsverkehr auf dieser Linie durch Zoll- und tarifrische Massnahmen nicht beeinträchtigen wird. Diese Forderung liegt ebenso im deutschen, wie im englischen Interesse. Zur Zeit bereitet Russland dem Eindringen des fremden Handels in Nordpersien ein schweres Hindernis durch das seit 1883 bestehende Verbot der Durchfuhr ausländischer Waren durch Transkaukasien. Der fremde Einfuhrhandel nach Nordpersien geht daher gegenwärtig über die Karawanenstrasse Trapezunt-Erzerum-Täbris-Teheran. Diese Karawanenstrasse kann wegen der hohen Transportkosten schon jetzt nicht mehr als Handelsstrasse für Nordpersien mit dem transkaukasischen Einfuhrwege konkurrieren. Wenn Russland nunmehr noch das nordpersische Eisenbahnnetz durch eine Linie von Djulfa nach Teheran ausbaut, den Anschluss Teheran-Hamkin dagegen nicht herstellt, gelangt es praktisch dahin, sich das Handelsmonopol für das nördliche Persien zu sichern.

Herr Iswolsky hat mir neuerdings eine Antwort auf die erwähnten deutschen Vorschläge in Aussicht gestellt. Ich hoffe, dass sie dazu beitragen wird, die jetzt zwischen den Kabinetten aufgetauchten Fragen hinsichtlich Persiens in einer befriedigenden Weise zu regeln. Eine Verständigung mit Russland würde den Weg zu einer entsprechenden Vereinbarung mit England wesentlich ebnen. Für eine solche würden wohl ähnliche Zugeständnisse wie die oben angeführten für Südpersien in Frage kommen. Als Gegenleistung könnte etwa eine Zusicherung Englands in Betracht gezogen werden, dass es bei Ausbeutung der diesbezüglichen Konzessionen dem deutschen Kapital und der deutschen Industrie eine prozentuale Beteiligung offen halten wird. Auch würde mir eine authentische Interpretation der offenen Tür in Persien von Wert sein, dahinlautend, dass Deutschland in Anleihefragen und in Fragen der Reorganisation der persischen Finanzverwaltung sämtlichen dritten Grossmächten gleichgestellt wird.

Ein derartiges Abkommen über Persien würde sich vom deutschen Standpunkte ebenfalls am besten in einem politische Gesamt- abkommen mit England vertreten lassen.

(Translation.)

I RECEIVED with interest Sir Edward Grey's suggestions which were conveyed to me by the Imperial chargé d'affaires, and I welcome them as a proof of confidence, which I sincerely reciprocate. I am gladly prepared to fall in with Sir E. Grey's sugges-

tions, and to explain fully and confidentially my standpoint in respect to the Bagdad Railway and the Persian question.

I see from the reports of the chargé d'affaires that Sir E. Grey regards the unreserved consent of England to the proposed increase in the Turkish customs as sufficient compensation for the cession to England of the preponderating influence in the Gulf section of the Bagdad Railway. I cannot agree with this view.

The Bagdad Railway Company has been definitely granted the concession by the Porte to build the railway from Konia to a point on the Persian Gulf which is still to be fixed. The section from Bagdad to the Gulf constitutes one of the most important parts of the whole line, and one which has the richest future in store for it. In view of these facts, any agreement yielding to England preponderating influence in this section, would be regarded by public opinion in Germany as a weak concession to England on the part of the Imperial Government. Sir E. Grey is not unaware how far I have to reckon with German public opinion. This was recently made additionally clear by the proceedings arising out of the Mannesmann's mining claims in Morocco. Public opinion in Germany is following the Bagdad Railway question with quite exceptional interest. I am only stating the facts when I say that the press has—much against the wish of the Imperial Government and the financial circles concerned—stamped this question almost as one of first-class national importance, chiefly on account of the opposition which the British Government raised with regard to the project—an opposition which was also taken up by Russia and France. In these circumstances even Germans of quiet and moderate views would not understand a special agreement about the railway, by which the Imperial Government, without sufficient equivalent in return, renounced in England's favour rights granted by the Porte in the exercise of her sovereignty. Under no circumstances can England's unreserved consent to the 4 per cent. increase of Turkish customs be regarded as a sufficient equivalent. This step would in reality be more a measure taken by England to meet the wishes of Turkey, in that it would facilitate the Porte's task in fulfilling her obligations with regard to the Bagdad Railway Company. Besides, even the maintenance of the reserve would only have the effect of delaying the construction of the line. It would by no means completely frustrate it, because the Porte would by degrees be in the position to fulfil its obligations in respect to the Bagdad Railway Company in another way. As therefore England's unreserved consent to the increase of the customs cannot be considered as an equivalent, it remains to be seen whether in return for the renunciation of German preponderance in the Gulf section other concessions can be found which could be regarded as a *quid pro quo* on the part of England.

I have considered this question thoroughly, and am convinced that no *quid pro quo* can be found which would justify, from the German standpoint, a separate agreement respecting the Bagdad Railway. I should, by the conclusion of a separate agreement, lay myself open to the just reproach of weakness and exaggerated complaisance in respect to England. As Sir E. Grey is aware, I cherish sincere wishes for the lasting establishment of confidential and friendly relations between Germany and England. But by this reproach I should, without doubt, thwart the realisation of those wishes, and give German public opinion genuine ground for animosity not only towards myself, but also towards England. Under these circumstances, I see, to my regret, no other possibility of an understanding about the Bagdad Railway than the conclusion of a general political agreement ("Gesamt- abkommen") between Germany and England, of which this question should form a part. I am convinced that a general agreement of this kind is the only thing that can save me from the charge that in the Bagdad Railway question I have openly sounded the retreat before England.

An understanding with regard to Persia ought, on the other hand, scarcely to offer especial difficulties. Germany is prosecuting commercial aims in Persia. Her interests are served if England and Russia respect—in accordance with the assurances given in their agreement of the 31st August, 1907—the independence and integrity of Persia, and keep the door there open for the commerce of all nations.

As early as 1906 M. Iswolsky submitted to the Imperial Government the proposal for an understanding with regard to Persia. In reply to this the Imperial Government declared itself ready to renounce, in favour of Russia and within a part of Northern Persia to be subsequently more accurately defined, obtaining concessions for railways, roads, and telegraphs. In return for this Germany's essential demands are, for the complete recognition of her equal rights in all other economic questions, the linking-up of the railway lines planned by Russia in Northern Persia with the future Bagdad-Khanekin line and for the assurance that Russia will not prejudice the international traffic on this line by customs and tariff measures. This demand is equally in the

interest of Germany and in that of England. At the present time Russia places a serious obstacle in the way of the penetration of foreign trade into Northern Persia by the interdiction which has existed since 1883 against the passage in transit of foreign goods through Trans-Caucasia. The foreign import trade to North Persia, therefore, passes at present by the caravan route of Trezibond-Erzeroum-Tabreez-Tehran. On account of the high transport dues this caravan route can even now no longer compete as a trade route to North Persia with the way of importation by Trans-Caucasia. If Russia should now develop the railway system of Northern Persia by a line from Julfa to Tehran, and should, on the other hand, not establish the Erzeroum-Khanekin connection, she practically succeeds in securing to herself a monopoly of the trade of Northern Persia.

M. Isvolsky recently held out hopes to me of a reply to the above-mentioned German proposals. I hope that it will contribute to the settlement in a satisfactory manner of the questions which have now arisen in regard to Persia between the Cabinets. An understanding with Russia would materially smoothe the way to a corresponding agreement with England. For an agreement of this kind similar concessions in Southern Persia might well come into consideration as those quoted above. An assurance on the part of England might, perhaps, be taken into consideration as a *quid pro quo* to the effect in the exploitation of the concessions in question a percentage of participation should be kept open for German industry. An authentic interpretation of the open door in Persia would also be of value to me to the effect that in loan questions, and in questions affecting the reorganisation of the Persian financial administration, Germany should be placed on a par with all other third Great Powers.

From the German point of view, an agreement of this nature with regard to Persia could also best be included in a general political agreement with England.

[13250]

No. 45.

Sir H. Babington Smith to Sir C. Hardinge.—(Received April 18.)

Dear Hardinge,

Constantinople, April 11, 1910.

I DULY received your letter of the 12th March on the subject of the Bagdad Railway, and the note from the Bagdad Railway Committee which you enclosed. I have studied them both with great attention, and the importance of the question must be my excuse if I reply in some detail.

Before coming to the question of policy, it may be convenient that I should begin by dealing with the figures.

As regards the cost of the line in general, I have no means of checking in detail the figures given by the committee. The committee admit that the cost of the two difficult sections cannot be estimated with any precision, and I should doubt if the engineers of the company themselves can frame an accurate estimate beforehand. From such information as I have, it appears that the cost of the two difficult sections will probably exceed by about 10 per cent. the figure of the committee, and after careful examination I think it would not be excessive to add 10 per cent. for unforeseen contingencies to their total estimate of 13,615,000*l.*, making 14,976,500*l.* This leaves a margin of a little under 4,000,000*l.* on the whole line.

Whether the margin is 4,000,000*l.* or 5,000,000*l.*, I have no desire to contend that it is not excessive, or that the Turks have not made a bad bargain. But at the same time it is necessary to make an important qualification before this can be accepted as a complete view of the situation. The arrangement regarding the division of traffic receipts is so unfavourable to the company, as soon as the traffic grows to any substantial amount, that large provision ought to be made in the shape of reserves to meet deficiencies in the working account. I am not quite sure that you have realised the full effect of the conditions as to traffic receipts; but I will deal with this matter in connection with your comparison of the existing concession with the "Indian" system of guarantee.

The point, however, which more directly concerns us is not the cost of the whole line, but that of the Bagdad-Gulf section, in which we wish to participate.

With reference to your criticisms of my remarks on this subject, I may explain that when writing of "terminal arrangements" I was not referring to the construction of ports at Bagdad and Bussorah. These are, as you point out, on a separate footing. I referred rather to the provision of sidings, goods yards, engine-sheds, repairing-shops,

offices, &c., and the more expensive character of the station buildings required at a terminus. All this will absorb a good deal of money. As regards bridges, it is true that if the German route is followed there will be only one bridge across the Euphrates on the main line; but if irrigation progresses in the country between the rivers a branch may be necessary to carry off the produce; while if the route recommended by Wilcocks is adopted, it would be necessary to have a branch to Kerbela and Nedjef. In each of these cases a second bridge would be required.

There are other circumstances too, special to Mesopotamia, which add to the cost of railway construction there. The freight of railway material to the Persian Gulf is much higher than to the Mediterranean. All materials would have to be brought from a distance. There is no wood to be obtained locally; and the nearest stone is, I believe, at Hit, a hundred miles beyond Bagdad.

Taking these various elements into account, neither the committee's estimate nor Dr. Gwinner's figure for the Konia-Eregli section can be taken as sufficient for the Bagdad-Gulf section. It is not much use speculating further on the subject, since in two or three months we shall have the more secure ground of an actual survey; but I may say that at present the best estimate we have been able to obtain puts the cost at 6,000*l.* per kilometre, without including contractor's profit or interest during construction. This figure is given us by a leading firm of railway engineers. It is based on an actual survey (made fifteen years ago) of part of the Bagdad-Gulf line and a reconnaissance of the rest; and it is, I think, of more value than Sir James Mackay's *obiter dictum* or the figures of the committee, which are not, so far as I am aware, founded on any survey or examination of the local conditions.

I now come to your comparison between the cost to the Government of the existing Bagdad concession and of a guarantee on the "Indian" system, on the assumption that 5,000*l.* per kilometre is the probable cost of the line. Even on this assumption (which, as I have explained, I believe to be too sanguine), the real results of the comparison are less favourable to the "Indian" system than your figures appear to show, since no account is taken of the fact that the working arrangements of the Bagdad concession are very onerous to the company, and correspondingly favourable to the Government. You point out, as a strong argument in favour of the "Indian" system, that "the liability would cease as soon as the railway realised a net profit of 5 per cent. (a state of things which ought soon to come about in the fertile districts of Mesopotamia)"; and you regard the construction annuity under the Bagdad concession as irreducible, except by the operation of the sinking fund. There is a double misapprehension here. The operation of the sinking fund has no effect whatever on the amount of the annuity, which, as usual, provides both interest and sinking fund in equal annual instalments. But, on the other hand, as traffic increases, the reduction of the total amount payable would be much more rapid under the arrangements of the Bagdad concession than under the "Indian" system; and though the initial amount might be greater under the former, it would disappear much sooner. I may point out, in passing, that the initial liability of the Turkish taxpayer could never amount to 433,180*l.*, since it could only reach this figure on the impossible supposition that the railway had no traffic at all.

This can be best demonstrated by actual figures. In order to make a comparison of the cost to the Government of the two systems it is of course necessary to make an assumption as to the relation of working expenses to revenue under the "Indian" system. I assume that 60 per cent. of the gross receipts would be allowed for working—a figure which is equal to the average for all the Indian railways in 1908, and is below the average for the English railways. It is also the figure adopted for the Egyptian delta light railways, which you cite. A fixed percentage is not a very scientific formula for working expenses, but it will serve for the present purpose.

Under the existing concession (A) the construction guarantee is an annuity of 440*l.* (11,000 fr., including interest and sinking fund) per kilometre (315,040*l.* for 716 kilom.). There is a traffic guarantee of 180*l.* (4,500 fr.) per kilometre. All traffic receipts up to 400*l.* (10,000 fr.) per kilometre go to the Government; above that amount, 40 per cent. to the company and 60 per cent. to the Government.

Under the "Indian" system (B), 5 per cent. is guaranteed on 3,600,000*l.*, the assumed cost of 716 kilom. of line, plus 1,400,000*l.*, the sum assumed to be paid to the German Bagdad Company. An additional sum of 20,000*l.* per annum is provided, as you suggest, to allow the necessary margin for the financial operations. A sinking fund should be included (as in (A)) to redeem the capital in the period of the concession. This will amount to about 4,000*l.* per annum.

[1723]

X

Gross Traffic Receipts per Kilometre.				Amount payable (— by, + to) the Government under the existing Concession.	Amount payable (— by, + to) the Government under the "Indian" System.
£	Fr.			£	£
180 =	4,500	..	..	— 315,040	— 222,448
360 =	9,000	..	..	— 186,160	— 170,896
400 =	10,000	..	..	— 157,520	— 159,440
800 =	20,000	..	..	+ 14,320	— 44,880
960 =	24,000	..	..	+ 83,056	+ 944

If the traffic is small the "Indian" system has the advantage, but you will see that where the traffic reaches 10,000 fr. per kilometre there is approximate equality. When the traffic arrives at the point at which the line would earn 5 per cent. (about 24,000 fr. per kilometre), the liability under the "Indian" system would, as you point out, cease; but under the existing concession not only would the liability have ceased, but the Turkish Treasury would be receiving a net income of 83,000l. a-year. If it is the case that this state of things would soon come about, it is clear that, from the point of view of the Turkish Treasury, the existing concession is greatly to be preferred. The company, on the other hand, would be in a very serious position, unless it had made substantial provision for this contingency.

As regards the 2,000l. per kilometre which the Germans claim as a contribution to the cost of the difficult sections and to the reserve fund for meeting deficiencies on working account, there is no doubt force in your argument that the traffic in the sections north and west of Bagdad would be lighter than in the Gulf section, and therefore the traffic conditions of the concession less onerous. I am not at all sure that the traffic on the section between, say, Harrân and Alexandretta, which opens up fertile country, will be less than that between Bagdad and the Gulf, where there is the competition of water carriage. But in any case, whatever the validity of the argument, the Germans are in the position of possessing something which we want, and are therefore in a strong position for fixing their own price.

You doubt whether their position is so strong as it appears to me; but even since I wrote last it has become materially stronger. As you are aware, the convention for the second and third series of the Bagdad loan assigns £ T. 420,000 from the surplus of all the revenues of the debt proper, with the exception of the produce of the 3 per cent. increase in the customs duties. This gives a claim on any surplus arising from a further increase in the customs duties; and in order to be able to comply with the condition laid down by the British Government for assenting to such increase, the Turks have asked the Bagdad Company to release them from this obligation so far as it relates to a further increase in the customs. The Germans put forward the contention that the debt surpluses have been assigned for the prolongation of the Bagdad line in general, and not merely for the prolongation to Helif, for which the second and third series of the loan provides. They base this claim upon a clause in the "convention additionnelle" of the 2nd June, 1908:—

"L'excédent des revenus concédés à la Dette publique ayant été affecté au prolongement de la ligne de Bagdad"

Their interpretation of the phrase is, I think, untenable. It clearly refers to the previous paragraph, in which it is stated that the Government have decided to continue the line to El Helif. However, Djavid Bey apparently did not seriously contest their interpretation, and agreed to substitute for the surplus arising from the additional 4 per cent. the surplus of the tithes assigned to the kilometric and other guarantees. This fresh guarantee is to apply to the line not only as far as Helif, but as far as Bagdad, but it will not come into force till five years hence (1331).

In making this arrangement, Djavid believed that he was taking a course which would be accepted by the British Government, since Tewfik Pasha had informed the Porte that the British Foreign Office had explicitly stated that they would not object to the assignment of revenues for the guarantee of the line as far as Bagdad, provided that those revenues were not derived from the increase of the customs duties. It is evident that there was an unfortunate misunderstanding somewhere. Djavid Bey had seen the telegram from Tewfik Pasha, and said that it was quite explicit in its terms.

When I saw Djavid Bey a week ago, there was still not a complete agreement on the subject, since the Germans had not finally accepted Djavid's condition that the surpluses should be paid over to the Ottoman Government, and paid by them to the railway company.

I understand that the Turks have now been informed that the assignment of substituted revenues would not be regarded by His Majesty's Government as satisfactory. This will suspend the affair for the moment; but how is it to be brought to a solution? It seems to me that there are two courses. The first is that which you are adopting—to endeavour to block further progress for the Germans in order to force them to obtain a modification of the concession in the sense you desire, that is, I understand, a modification which will amend the arrangements for the working guarantee, and will diminish the margin of profit, which you regard as excessive.

But, so far as concerns the line from Konia to Bagdad, in which we do not ask to participate, is that a matter in which we can, with advantage, intervene? If the Turks themselves were striving to obtain a modification and claimed our support, we might help them; but as a matter of fact, they are by no means grateful for the obstacles which the British Government tries to interpose against the assignment of further revenues, since these same obstacles prevent the Turks from raising further revenues of which they have urgent need. This is, no doubt, short-sighted on their part; but it must be remembered also that the military party have a strong desire to see the line finished, and are not much impressed by financial considerations. If, then, we take a strong stand against an arrangement which we regard as extravagant, but which they wish to carry out, we shall earn no thanks, and shall probably arrive at no result. We shall keep open a cause of difference with the Germans and shall do no good for the Turks.

The other course, which I have ventured to advocate, is to accept the terms which we know the Germans are prepared to give, and to endeavour to modify the form of the concession for the part which concerns us after we have secured our footing. I quite agree that the solution at which you aim would be the more satisfactory, if we could obtain it; but what I fear is that if we let the present opportunity pass, we may find that the Germans can do without us. If they succeed in obtaining the sanction of the Ottoman Parliament for the extension of guarantees which Djavid has provisionally promised, their position will be immensely strengthened. In any case, they have the means of going on for five years or more, and it appears to me hopeless to expect that we can block them permanently, or that we can coerce them by the menace of a Tigris Valley railway from Bagdad to the Gulf. I do not think that such a railway could be built without a guarantee, and the Turks would never accept a scheme for building it under the guarantee of a foreign Government.

The situation as regards the Bagdad-Homs Railway has become somewhat clearer since I last wrote. I enclose a memorandum of a conversation which I recently had with M. Bompard.* I cannot help thinking that M. Cambon must have been under some misunderstanding as regards Ornstein and the Ottoman Bank. Ornstein was the representative in Constantinople of a group of which M. Noel Bardac is the active member. It is quite certain that Bardac is acting in co-operation with the Ottoman Bank. This I know, not only from Ornstein, but also from M. Deffès, the director-general of the Ottoman Bank here, and it is confirmed by M. Bompard, who had no doubt that the group was looked upon with a favourable eye by the French Government. From our communications with this group, and also from what M. Bompard said, it is clear that they are genuinely anxious to co-operate with us, both as regards the irrigation and as regards the Bagdad-Homs Railway. We are quite ready to co-operate with them in these projects if they prove to be practicable, financially and otherwise, and there is a general understanding between us to this effect.

I enclose also a memorandum of a conversation which I had with Baron Marschall just before he left for Egypt.† He expressed himself as desirous of British co-operation in the Bagdad Gulf section, and was much less hostile than I expected to the Bagdad-Homs scheme.

Mr. Money, our engineer, is making good progress, and according to the last telegram which I received from him, he has left Bussorah for Koweit a few days ago. He should be back here about the beginning of June, and in coming back he will follow the route proposed by Wilcocks for the Bagdad-Homs Railway. We shall therefore in the course of the summer have fuller materials for forming an opinion on the railway question.

* See enclosure in No. 30.

† See enclosure in No. 29.

As regards the irrigation schemes, with which the railway is necessarily linked, we shall not be so far advanced. It is very unfortunate that Webb found himself unable to go to Mesopotamia this spring. I hope that it may be possible to arrange for his going at the beginning of the cold weather. The delay is to be regretted, both because our French friends are anxious to hurry on, and also because the Turks will certainly require further financial assistance in the autumn, and this will tend to force on to a solution all questions which are connected with the increase of the customs.

M. Bardac has pressed me to arrange a meeting with him in order to discuss matters further, and I have said that I shall be able to go to Paris early in May.

As regards the position here, the feeling excited by the Lynch affair has for the time subsided, but it appears clear that there is no prospect of the scheme passing in the form which it has hitherto taken. It is most desirable from all points of view to obtain a settlement, and if possible, a settlement which, while securing British interests, will give less occasion than the present scheme for arousing opposition. If, as I think is possible, a form can be found which would attain this result, I feel sure that it would be wise policy to support it.

I propose to leave Constantinople on the 19th instant, and to arrive in London on the 22nd or 23rd. Will you let me know (at 29, Hyde Park Gate) when it would be convenient to you for me to call at the Foreign Office?

Yours sincerely,

H. BABINGTON SMITH.

Minute by Mr. Parker.

Since the intimation of Herr von Bethmann-Hollweg that Germany would only admit our participation in the Bagdad Railway provided she received in return compensation in some other quarter, the question of the co-operation of this country in the undertaking has been ruled out for the present, and the subjects discussed in this letter have an interest which is accordingly only academic.

There are, however, certain conclusions in this letter which seem to be almost untenable, and, before passing to details, I would draw attention to the arguments upon which they are founded.

Firstly.—Sir H. Babington Smith admits that, even if the branches are excluded from consideration, there will, under the concession of 1903, be a probable surplus of 4,000,000*l.* or thereabouts from the construction annuity, this surplus being the sum which would remain over and above the actual cost of building the main line.*

He does not contend that this surplus of 4,000,000*l.* is not excessive, or that the Turks have not made a bad bargain; but he seeks to justify the extravagant sum guaranteed for construction by pointing to the unfavourable terms conceded to the company as regards "working expenses," and urges that the company must be in a position to cover their losses on account of "working expenses" by having recourse to the surplus they may save from the cost of construction.

What is the "working expenses" guarantee? It is an arrangement whereby, until the gross annual receipts per kilometre reach 4,500 fr., the difference between 4,500 fr. and the actual gross receipts is to be paid to the company by the Government; when those receipts exceed 4,500 fr., the entire surplus over that sum and under 10,000 fr. goes to the Government; and, finally, when the receipts exceed 10,000 fr., the above arrangement continues up to 10,000 fr., and the excess over this sum is to be divided between the Government and the company in the proportions of 60 per cent. and 40 per cent.

I am not sure, writing as I do without technical knowledge, whether a railway would pay when the gross receipts were under 4,500 fr. per kilometre; but it is obvious that, under the 1903 concession, the railway would pay the company still less if the gross receipts exceeded 4,500 fr. than if they were less than that sum; clearly, therefore, it is to the interest of the company to keep the gross receipts under 4,500 fr., and it is on this ground that we have maintained, and I think rightly, that the "working expenses" guarantee militates against the progressive development of traffic, and therefore against the purely commercial success of the railway.

Anyhow, so long as the company keep the gross kilometric receipts below 4,500 fr., the deficit, after deducting from these gross receipts the "working expenses," should

* The branches I refer to are only those indicated in article 1 of the concession of March 5, 1903.

not be very large, if, indeed, it exists at all, especially since rolling-stock does not, in the case of the Bagdad Railway, come under the cost of "working expenses," since rolling-stock is provided under the charge of construction in all estimates made both in this Office and by Sir H. Babington Smith.

It seems, therefore, somewhat magnificent to set aside 4,000,000*l.* or more from the sum provided as construction guarantees, merely in order to meet a deficit in "working expenses" which the company can reduce to a minimum, or perhaps altogether wipe out, by keeping the gross kilometric receipts below 4,500 fr. per kilometre.

Secondly.—It will be noted that in the comparative tabular statement set out on p. 2 of the printed copy of Sir H. Babington Smith's letter, he omits all reference to a state of affairs where the gross traffic receipts would be under 4,500 fr. per kilometre: yet it would seem that under the concession of 1903 the company would, as shown above, have every advantage in restricting the traffic below that figure, and if they did so the comparison made would be markedly favourable to the "Indian" system.

Thirdly.—The tabular statement, which relates merely to the Gulf sections, does not contrast the terms of the Bagdad Railway concession with the "Indian" system pure and simple, but with the "Indian" system as handicapped by preliminary payment of 1,400,000*l.*, an amount representing the 2,000*l.* per kilometre which Dr. Gwinner claimed from Sir E. Cassel in the event of British interests having taken over the Gulf sections.

Needless to say, if the 1,400,000*l.* were eliminated, and the two systems then contrasted on an equal basis, as regards their attractions for the Turkish Treasury the figures would not favour the terms of the German concession of 1903, as shown below:—

Gross Traffic Receipts per Kilometre.				Amount payable (— by, + to) the Government under the existing Concession.	Amount payable (— by, + to) the Government under the "Indian" system.
£	Fr.	..	..	£	£
180	=	4,500	.. ..	— 315,040	— 152,448
360	=	9,000	.. ..	— 186,160	— 100,896
400	=	10,000	.. ..	— 157,520	— 89,440
800	=	20,000	.. ..	+ 14,320	+ 25,120
960	=	24,000	.. ..	+ 83,056	+ 95,120

Fourthly.—To take construction alone, in the first instance;—the amount payable by the Turks in respect of the Gulf sections would, under the 1903 concession, be 315,040*l.* a-year, as Sir H. Babington Smith admits. Under the "Indian" system it would be 200,000*l.* (at 5 per cent.) plus, it is true, 4,000*l.* a-year for capital redemption or sinking fund. This not very large item of 4,000*l.* a-year we had not included in our former estimate. For construction, therefore, the liability of the Turks would be 315,040*l.* a-year under one system, and only 204,000*l.* under the other.

To take now working expenses alone:—

Under the German concession the arrangement is admittedly obstructive to the progressive development of traffic, and, in proportion as that development takes place, increasingly injurious to the interests of the company. Under the "Indian" system 60 per cent. of the gross receipts would, as Sir H. Babington Smith suggests and as we have throughout assumed, be allowed for working; the remaining 40 per cent. of the gross receipts would be revenue, and, if and when this item sufficed to cover 5 per cent. to the shareholders as interest, any surplus over that 5 per cent. would be divisible between the Government and the company, and—an important point of contrast—it would be to the interest of both Government and company to develop traffic and increase revenue.

The upshot of all this is that the German concession arrangements can only be defended by throwing the results of construction guarantees and working guarantees into the melting-pot, and by balancing possible losses in working against undue amounts allotted for construction,—a system which is neither straightforward, logical, or simple of execution, nor, indeed, calculated to give reliable results in the long run.

I cannot help feeling that the original promoters of the Bagdad Railway con-

cession, when they agreed to the terms of that concession, must have made up their minds to pocket the profits on construction,—*et après cela le déluge*.

There is one further aspect of this question I would again recall, and that is that if we had agreed to Dr. Gwinner's proposal to give us the Bagdad-Gulf sections, and to mulct us 2,000*l.* a kilom. in respect of them, the Germans would have been reaping the lion's share of the profits under the 1903 concession, while we should merely have incurred the odium of it.

Now, however, Herr von Bethmann-Hollweg has placed his veto even upon Dr. Gwinner's slender generosity.

I pass now to one or two minor points of Sir H. Babington Smith's letter:—

He says that the initial liability of the Turkish taxpayer could never amount in practice to 433,180*l.*, since it could only reach that figure on the assumption that the railway had no traffic at all: this is true, but by the expression "maximum" we meant a sum which could not be exceeded: as Sir C. Hardinge pointed out in his letter under reply, "the working guarantee is not a fixed amount."

It is also true that under article 35 of the concession of 1903 the construction guarantee of 11,000 fr. per kilometre is a fixed annuity for the whole duration of the concession, and it would have been more accurate to take this annuity, rather than the cash yield of the bonds, as the basis for calculating the liability of the Ottoman Government: as a matter of fact we have always done so in previous calculations, and it was an oversight that the same basis of calculation as usual was not adopted in the draft of Sir C. Hardinge's letter to Sir H. Babington Smith, but the net results of the two calculations are not very different.

Passing now to p. 3 of the printed copy of Sir H. Babington Smith's letter, I quite agree with his view that the German interpretation of the clause in the "convention additionnelle" of June 1908 is untenable.

The important part of this letter from a practical point of view is that Sir H. Babington Smith is coming to London and that he wants to call on Sir C. Hardinge: he will, either then, or at some not very distant date, have to be told that the Germans no longer wish for our co-operation in the Bagdad Railway. This will cause him and Sir E. Cassel justifiable annoyance, as they have spent considerable sums in sending an engineer to make railway surveys along the *tracé* of the Bagdad Railway. Since there is now no question of our participation in the Bagdad Railway, Sir E. Cassel may wish to find other outlets for his energy and his capital in Mesopotamia: but the French do not want him in the Bagdad-Homs Railway; and we would prefer a firm with more experience in railway management for the proposed Tigris Valley line if we get the concession, and therefore, by a process of exhaustion, it seems that the only thing we can help him in (unless, which seems hardly desirable, he participates in financing the Tigris line) would be in irrigation projects.

A. P.

Foreign Office, April 22, 1910.

There are one or two further minor points of criticism which suggest themselves in regard to Sir H. Babington Smith's letter, but in view of the length of this minute and the fact that the subject appears for the present to have lost all practical importance, I refrain from dealing with them.

A. P.

[13251]

No. 46.

Mr. Barry to Mr. Mallet.—(Received April 18.)

Dear Mr. Mallet, 2, Queen Anne's Gate, Westminster, April 18, 1910.
IN anticipation of seeing you to report on my interviews with M. Pichon, I now send you herewith certain documents which, together, constitute a record of what passed at the meetings in Paris.

Yours sincerely,
A. J. BARRY.

Enclosure 1 in No. 46.

Mr. Barry to Mr. Mallet.

Paris, April 15, 1910.

I ENCLOSE for your information a copy of a letter to M. Pichon, which has been shown to and approved by him this evening.

This letter, signed by M. Tardieu and myself, will be handed to M. Pichon to-morrow morning by us.

Yours truly,
A. J. BARRY.

Enclosure 2 in No. 46.

Mr. Barry and M. Tardieu to M. Pichon.

Paris, le 15 avril, 1910.

M. le Ministre,
COMME suite aux conversations que nous avons eues respectivement tant avec vous qu'avec Sir Charles Hardinge et Mr. Louis Mallet, agissant conformément aux instructions de Sir Edward Grey, nous avons l'honneur de vous adresser par les présentes des propositions fermes en vue de la construction, par une coopération franco-anglaise, d'un chemin de fer ottoman, à écartement normal, avec embranchements, de Homs à Bagdad.

Sachant que vous n'avez pas d'objection de principe à ce qu'il soit fait appel pour l'exécution de ce projet à la collaboration franco-anglaise, nous espérons que ces propositions, qui ont trouvé au Foreign Office un très favorable accueil sous réserve de votre haute approbation, vous sembleront acceptables.

Pour plus de clarté, nous nous permettons de vous rappeler brièvement l'origine de l'affaire.

Au mois de mai 1909, une demande de concession a été formée par Youssouf Saïd Bey en vue de la construction d'une voie ferrée de la Méditerranée au Golfe Persique.

Au cours des négociations dont cette demande a fait l'objet entre le demandeur et le Gouvernement turc, diverses modifications ont été apportées au projet primitif.

Dans l'état actuel, il s'agit d'une ligne à écartement normal de Homs à Bagdad se rattachant, à Homs, aux chemins de fer de Syrie; le Gouvernement ottoman réclame en outre un embranchement de Tadmor à Damas.

D'autre part, le Gouvernement turc a souhaité la substitution au système d'une concession proprement dite avec garantie kilométrique, du régime qui sera exposé ci-dessous, et qui a pour lui des avantages d'ordre intérieur et international sur lesquels il est superflu d'insister.

A la date du 17 mai, 1909, Youssouf Saïd Bey a donné à Mr. Bernard Maimon, sujet anglais, "le pouvoir exclusif et irrévocable de former des syndicats ou groupes et éventuellement des sociétés pour la réalisation de la concession qu'il a demandée," et s'est engagé à "reconnaître comme valables tous contrats que Mr. Maimon aura signés à cet effet."

Youssouf Saïd Bey, par l'intermédiaire de Mr. Maimon, s'est alors adressé à nous pour la réalisation de son projet. Ce projet ne pourra être complètement arrêté qu'après entente définitive du groupe anglais et du groupe français avec le Gouvernement ottoman. Dès maintenant, cependant, les principes suivants sont acceptés par nous:—

1. Le Gouvernement Impérial ottoman construira la ligne au moyen de la formation d'une société franco-anglaise.
2. Cette société, qui constituera le capital, sera chargée par le Gouvernement ottoman, de la construction de la ligne et de son exploitation pendant un nombre d'années à déterminer d'accord.
3. Le Gouvernement ottoman assurera au capital tant d'actions qu'obligations, un intérêt de 4.5 pour cent garanti par les recettes de la ligne. Si les recettes ne suffisaient pas, le Gouvernement ottoman s'engagerait à parfaire la différence en fournissant un gage à cet effet.
4. Le Gouvernement ottoman aura le droit de rembourser au pair les titres constituant le capital après un nombre d'années à fixer d'accord.
5. Jusqu'au remboursement total du capital par le Gouvernement ottoman, la ligne sera administrée et exploitée par la société franco-anglaise; un commissaire ottoman en contrôlera la gestion au nom du Gouvernement Impérial.
6. Jusqu'au remboursement total du capital, les bénéfices réalisés, déduction faite

de tous les frais d'exploitation et de l'intérêt à servir au capital, seront partagés entre le Gouvernement ottoman et la société dans une proportion qui sera fixée d'accord.

7. Ces conditions générales seront précisées et complétées par les deux groupes français et anglais, d'accord avec les Cabinets de Londres, de Paris, et de Constantinople.

8. La société sera constituée sous la loi ottomane, le président du conseil d'administration sera français, le directeur général anglais, les administrateurs anglais et français en nombre égal, sous réserve de la place qu'il y aurait lieu d'accorder dans le conseil à l'élément turc.

9. En ce qui concerne la construction, la section Homs-Bagdad [? Deir] sera construite par l'industrie française. Il en sera de même pour l'embranchement Tadmor-Damas que le Gouvernement turc demande qu'on construise. La section Deir-Bagdad sera construite par l'industrie anglaise. En ce qui concerne la construction de l'embranchement éventuel, Deir-Alep, elle est réservée pour un examen ultérieur, et la méthode à suivre, en ce qui concerne cet embranchement, sera arrêtée d'accord par les groupes français et anglais. A cette exception près, tous les embranchements à l'ouest d'une ligne nord-sud passant par Deir seront réservés à l'industrie française, tous les embranchements à l'est de cette ligne à l'industrie anglaise.

10. Le matériel sera commandé par moitié à l'industrie anglaise et à l'industrie française.

Tels sont les points sur lesquels nous nous sommes mis d'accord en nous donnant réciproquement pouvoir pour la constitution des groupes français et anglais appelés à collaborer.

Nous vous serons reconnaissants, M. le Ministre, de nous faire savoir si vous approuvez ce programme, et dans le cas où il en serait ainsi, comme nous l'espérons, de vous concerter avec le Gouvernement anglais pour appuyer à Constantinople les négociations du groupe franco-anglais que nous constituerons définitivement dès que votre réponse nous sera parvenue.

Nous avons fait tenir par le courrier de ce jour, copie de la présente à Sir Edward Grey.

Veillez, &c.

ANDRÉ TARDIEU.
A. J. BARRY.

Enclosure 3 in No. 46.

Mr. Barry to M. Tardieu.

London, April 13, 1910.

Dear Sir,

THE English Government having given me to understand that it views favourably an Anglo-French co-operation in the construction of a standard gauge railway from Homs to Bagdad, and understanding also that M. Pichon has claimed the same concession, you having on the other hand declared that there is no further objection in principle to the above-mentioned Anglo-French co-operation, I, in continuation of our previous communications, put forward to you a firm proposition which I beg you to bring to the notice of the French Government and also to the French financiers invited to co-operate with us.

To make things quite clear, I briefly recall the origin of the affair.

An application for the concession was made between the 15th and 26th May, 1909, by Youssouf Saïd Bey which had in view the construction of a railway from the Mediterranean to the Persian Gulf. In the course of negotiations which took place between the applicant and the Turkish Government, various modifications have been introduced into the original project. As matters now stand it is proposed to construct a standard gauge railway from Homs to Bagdad forming a junction at Homs with the "chemins de fer de Syrie." The Turkish Government desires also the construction of a branch line from Tadmor to Damascus.

Further the Turkish Government desires instead of a formal concession on the terms of a "kilometric guarantee" to substitute for it an arrangement which will be set forth herein later on, and which has for the Turkish Government certain advantages from both an internal and international point of view, which are obvious and into which it is unnecessary to enter here.

On the 17th May, 1909, Youssouf Saïd Bey gave to Mr. Bernard Maimon, an English subject, "le pouvoir exclusif et irrévocable de former des syndicats ou groupes, et éventuellement des sociétés pour la réalisation de la concession qu'il a

demandée," and he further engaged himself as follows: "reconnaître comme valables tous contrats que Mr. Maimon aura signés à cet effet."

Mr. Maimon put himself in communication with my group in virtue of these powers, and by a letter dated 10th December, 1909, I declared to the Turkish Government that certain friends of my firm are willing to provide a sum of 160,000,000 fr. for the purpose of carrying out the construction of the railway contemplated in the concession asked for by Youssouf Saïd Bey. This sum will be considerably more than is now required for the purposes of the construction of the railway as at present contemplated, which is as I have said above, a railway from Homs to Bagdad.

Youssouf Saïd Bey and Mr. Maimon have on their part in view of the Anglo-French co-operation, which they, as well as I myself, have desired from the very beginning, entered into an engagement with you not to conclude anything definite with any French group, company, or individual, concerning the transfer of the rights to be obtained by the proposed concession, so far as the French section of the railway is concerned, without your consent. To this I agree and undertake, that in view of the agreement between us, so far as I am concerned, I leave with you the full power to form the French group, and secondly, not to come to any arrangement with any French group without your approval, it being at the same time agreed by you on the understanding that you similarly agree with me, *mutatis mutandis*, in regard to the English group.

In the course of negotiations at Constantinople, negotiations which are not yet concluded, Youssouf Saïd Bey has put forward certain general conditions, the exact details of which cannot be definitely decided on until the proposed agreement between the English and French groups has been completed.

From now therefore the following principles, subject to the above-mentioned agreement, are accepted by my friends:—

1. The Imperial Ottoman Government will construct the railway by means of the formation of a French-English company.

2. To this company, which will provide the necessary capital, the Turkish Government will confide the construction of the railway and its working during such number of years as shall be determined by agreement.

3. The Turkish Government will undertake to pay $4\frac{1}{2}$ per cent. on the capital, whether the capital be in the form of shares or bonds, which interest shall be secured on the receipts of the railway. If these receipts are not sufficient, the Turkish Government will engage itself to make up whatever difference is required, and will provide security for this purpose.

4. The Turkish Government shall have the right to repay the capital of the company at par after such a period as may be fixed by agreement.

5. Until the repayment of the whole of the capital by the Turkish Government the railway shall be administered and worked by the Franco-English company. A representative appointed by the Turkish Government shall control the undertaking on behalf of the Imperial Government.

6. Until the repayment of the whole of the capital the surplus receipts of the railway, after deducting working expenses and interest on capital, shall be divided between the Turkish Government and the company in such proportion as may be agreed.

7. These general conditions shall be defined and amplified by the French and English groups in agreement with the Governments of England, France, and Turkey.

8. The company shall be formed under Ottoman law, the president of the administration shall be French, the director-general English, and the members of the administration English and French in equal numbers, subject to the proportion of members which is to be reserved in the administration for Turkish representatives.

9. So far as the construction of the railway is concerned, the section from Homs to Deir shall be constructed by the French, and also the branch from Tadmor to Damascus, which the Turkish Government wish to have constructed. The section from Deir to Bagdad is to be constructed by the English. With regard to the construction of the proposed branch from Deir to Aleppo, this shall be reserved for future consideration, and the method shall be decided by the French and English groups acting in accord. With this exception all branch lines west of a line drawn north and south through Deir shall be reserved for French enterprise, and all branch connections east of the same line for English enterprise.

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10. All plant and material required for the construction of the railway shall be ordered as to one half in France and the other half in England.

The above are the general conditions which my group accept, and on which they are prepared to provide half the capital required.

Both for myself and my friends I beg you to bring the terms of this letter to the knowledge of the French Government, and submit to them our definite offer to co-operate on the conditions contained herein with a French group for the purpose of carrying out the enterprise. We empower you at the same time to form a French group, with whom we will co-operate, and to submit to them our proposition, the details of which we are ready to define in agreement with them.

With, &c.

A. J. BARRY.

Enclosure 4 in No. 46.

M. Tardieu to Mr. Barry.

Cher M. Barry,

26, Avenue de Messine, Paris, ce 14 avril, 1910.

MR. MAIMON vient de me remettre votre lettre d'hier. J'ai l'honneur de vous en accuser réception et de vous confirmer que j'en approuve pleinement les termes, aussi bien en ce qui concerne les bases générales de l'affaire Homs-Bagdad qu'en ce qui touche nos engagements réciproques relatifs à la formation des deux groupes français et anglais.

Veuillez, &c.

ANDRÉ TARDIEU.

Enclosure 5 in No. 46.

Memorandum of Conversation on April 16, 1910, at the Quai d'Orsay, between M. Pichon, Mr. Barry, Mr. Maimon, and M. Tardieu.

MR. BARRY et M. Tardieu remettent à M. Pichon la lettre ci-jointe, exposant l'arrangement relatif à une entente anglo-française pour la construction d'une ligne Homs-Bagdad.

M. Tardieu rappelle au Ministre l'origine de l'affaire et résume le projet qu'il lui a, d'ailleurs, lu la veille.

M. Pichon déclare qu'il approuve l'arrangement projeté, qu'il enverra immédiatement à M. Cambon la lettre à lui remise, en l'invitant à voir Sir Edward Grey de façon à établir une entente définitive sur l'arrangement proposé. Il enverra également le projet d'arrangement à l'Ambassadeur de France à Constantinople. Il partage l'avis de M. Tardieu que, l'accord une fois officiel, il conviendra que des instructions identiques soient données par Sir Edward Grey et par lui aux ambassades d'Angleterre et de France à Constantinople en vue de soutenir Youssouf Saïd Bey.

Il ajoute que l'arrangement suggéré par Mr. Barry et M. Tardieu est conforme aux intérêts français et anglais dans la partie de l'Asie à laquelle il s'applique et n'est en contradiction avec aucun droit ou intérêt étranger.

Interrogé par M. Tardieu sur le point de savoir s'il approuverait qu'on eût d'abord recours à Sir Ernest Cassel dans la formation du groupe anglais, M. Pichon répond nettement que non. A son avis, il y aurait un grave inconvénient à procéder ainsi. Il n'a pas en vue d'objections relatives à la personne de Sir Ernest Cassel. Mais ce dernier, d'après ses renseignements, est déjà engagé dans certaines combinaisons inconciliables avec l'arrangement projeté. D'autre part, Sir Ernest Cassel n'est pas *persona grata* auprès du Gouvernement turc. Il n'y a pas lieu de prendre à son égard pour l'avenir une attitude d'exclusion absolue, mais dans la phase actuelle de l'affaire il serait inopportun de s'adresser à lui.

Mr. Maimon fait alors observer qu'un des embranchements pour lesquels les Allemands ont obtenu par le contrat de Bagdadbahn un droit de préférence va d'El Badj (près de Bagdad) à Hit. Le projet Willcocks d'irrigations est lié à un projet de chemin de fer allant à Bagdad par Hit. Donc pour appuyer le projet Willcocks (Ornstein) il faut s'entendre d'abord avec les concessionnaires de la Bagdadbahn. Sir Ernest Cassel est identifié avec le projet Willcocks et non avec le projet Youssouf Saïd Bey, qui ne

touche nulle part aux droits allemands. Par conséquent, en s'adressant à Sir Ernest Cassel on donnerait à l'affaire un caractère tout différent en la subordonnant à un accord avec les Allemands.

M. Pichon a marqué qu'il comprend la valeur de cet argument, s'ajoutant à ceux qu'il avait lui-même formulés.

L'entretien prend fin sur l'assurance renouvelée par M. Pichon qu'il va transmettre l'affaire à M. Cambon et l'inviter à voir Sir Edward Grey.

ANDRÉ TARDIEU.

Enclosure 6 in No. 46.

M. Tardieu to Mr. Barry.

Cher Monsieur,

26, Avenue de Messine, Paris, le 17 avril, 1910.

JE suis heureux de vous annoncer que la lettre que nous avons remise hier à M. Pichon, ainsi que la lettre particulière que je lui avais portée vendredi et qui le renseignait sur vos entrevues au Foreign Office, ont été officiellement transmises hier soir par la poste à M. Paul Cambon.

En même temps, M. Pichon a profité du départ pour Constantinople de M. Gout, sous-directeur des affaires d'Orient au Quai d'Orsay, pour communiquer à titre officieux à l'Ambassadeur de France à Constantinople nos propositions.

Veuillez, &c.

ANDRÉ TARDIEU.

[13013]

No. 47.

Sir Edward Grey to Sir G. Louther.

(No. 96. Secret.)

Sir,

Foreign Office, April 18, 1910.

THE Turkish Ambassador called upon me on the 13th instant, at my request, to discuss the financial negotiations now proceeding between the Porte and the German Government for facilitating the extension of the Bagdad Railway from El Halif to Bagdad.

I informed Tewfik Pasha that His Majesty's Government had heard of these negotiations with much surprise and concern, in view of the fact that they had previously been assured that the line would on no account be extended without the introduction of considerable modifications in the Bagdad Railway Convention of 1903, as also in view of the further fact that they could not, as the Turkish Government were aware, regard with equanimity the progress to the Persian Gulf of a railway which, as at present controlled and without any British participation, would seriously modify, and was indeed intended to modify, the economic position of this country in regard to the trade of Mesopotamia; would affect the political situation in the Persian Gulf to the detriment of British interests; and would assuredly have an important influence in regard to the Indian Empire.

I impressed upon Tewfik Pasha that His Majesty's Government were not actuated by any hostility to the railway, as such; and, under proper safeguards, would view the progress of railway construction in those regions with favour.

As, however, the present administration in Turkey were acting in this matter in complete disregard of the views and wishes of His Majesty's Government, and since (in spite of all that His Majesty's Government had done to assist the new régime, and of the friendly and even enthusiastic support, both moral and material, which had been extended by this country to Turkey, more especially during the crisis of 1908-9), the application of His Majesty's Government for a "protective" concession for a railway along the Tigris Valley from Bagdad had latterly been ignored, it showed very feeble appreciation of our friendship on the part of the Sublime Porte.

Needless to say in these circumstances, and until the attitude of the Turkish Government changed with regard to the Tigris Valley concession, His Majesty's Government could have nothing to say to the increase of customs duties.

I remarked that the Turkish Minister for Foreign Affairs in a recent interview with your Excellency, had denied any knowledge of our application for the concession in question, a circumstance which, in view of the reports which your Excellency furnished to me last September, seemed to me most extraordinary.

The Turkish Ambassador cordially agreed with me, and stated that he had repeatedly pressed the subject upon the attention of the Turkish Minister for Foreign Affairs. His Excellency added that he himself was of opinion that an arrangement whereby Great Britain would obtain this concession would be an equitable and easy solution of the difficulty.

I assured Tewfik Pasha that we should be perfectly willing that the proposed railway along the Tigris Valley should be nominally Turkish provided British interests were adequately represented, that His Majesty's Government had no political designs whatever on Mesopotamia, that they merely wished to preserve the economic position which had been steadily built up in those regions by the enterprise of British subjects during upwards of two centuries, and prevent it from being displaced by another foreign Power, and that they would be fully prepared to give to Turkey the most binding assurances of political disinterestedness in this respect.

I concluded by begging his Excellency urgently to support the specific proposals which you will be instructed to put forward in a separate despatch.

When carrying out the instructions referred to, I have to request your Excellency to read this despatch both to the Grand Vizier and to the Minister for Foreign Affairs.

I am, &c.

E. GREY.

[11933]

No. 48.

Sir Edward Grey to Sir G. Lowther.

(No. 107. Secret.)

Sir,

Foreign Office, April 20, 1910.

IN your Excellency's despatch No. 197 of the 2nd instant you reported that the Ottoman Minister for Foreign Affairs, while denying that negotiations on the subject had as yet reached a binding or final conclusion, had admitted that active discussions were in progress between the Sublime Porte and the parties concerned, with a view to facilitating the ultimate prolongation of the Bagdad Railway from El Halif to Bagdad by means of the allocation of the surplus revenues of the tithes which would be available for kilometric guarantees in 1915.

This information, as your Excellency is aware, has been received by His Majesty's Government with surprise and concern: in the first place it appears to indicate a fundamental change in the attitude assumed by the Ottoman Government only a few months ago in regard to the Bagdad Railway concession of 1903,—a concession which could hardly meet with the approval, let alone the encouragement and support, of an enlightened administration under the new régime, unless and until it had undergone drastic revision and substantial modifications: in the second place it tends to confirm an impression that the Ottoman Government, by disregarding the well-known views and wishes of His Majesty's Government, no longer recognise that community of interest which, in the critical period following upon the revolution of July 1908, induced His Majesty's Government on their part to extend to Turkey, with no small measure of success, their whole-hearted and consistent support: while finally, it foreshadows the progress of an enterprise which, as at present controlled and unless rendered innocuous by the execution of protective and countervailing measures, is calculated to involve increasing injury to long-established British commerce in Mesopotamia, as well as to affect political issues of the greatest magnitude in the Middle East, and more especially in the Persian Gulf, where, owing to the proximity of the Indian Empire, the commercial interests of Great Britain have long been recognised as predominant to those of all other European States.

It will be convenient that I should deal with these important subjects under distinct and separate headings.

Firstly, as regards the Bagdad Railway Convention of 1903, your Excellency was categorically informed by Hilmi Pasha, in his capacity as Grand Vizier, that the Bagdad Railway would not be continued unless the terms of the concession, negotiated under the corrupt and obscurantist rule of the ex-Sultan Abdul Hamid, were first materially altered. His Majesty's Government had cordially shared the estimate formed by Hilmi Pasha of the concession: and the failure both in 1903 and subsequently to enlist British participation in the undertaking is largely due to the recognition in this country of the onerous nature of the concession,—imposing upon Turkey burdens altogether out of proportion to the advantages it is likely to confer,—while certain *pourparlers* which took place in Berlin in the closing months of last year have not led to any concrete

result owing to some extent to the disinclination of the present holders of the concession to consider certain financial modifications advantageous to the Turkish Exchequer, which His Majesty's Government desired to see introduced into the scheme of the concession as regards its application to the Persian Gulf section.

I do not intend in the present despatch to enter upon a detailed exposure of the objections to which the terms of the convention of 1903 might reasonably be subjected, the more so since those objections are sufficiently patent from a perusal of the document in question: but I shall touch upon certain salient points which appear particularly disadvantageous to the interests of the Turkish Government and taxpayer.

Under article 35 two guarantees are instituted, the one a working-expenses guarantee, the other for purposes of construction: the first is arranged upon such a scale that it directly militates against the progressive development of traffic, and therefore against the commercial success of the line; the other is calculated upon a basis so extravagant that, even if the main line alone be taken into consideration, there should remain at the disposal of the promoters funds exceeding by several millions of pounds the actual cost of construction, while, if the branch lines were included in the estimate, the surplus would be still higher. It is on these grounds that His Majesty's Government are unable to approve of the financial burdens underlying the Bagdad Railway concession: they consider that there would be manifest advantages in substituting a form of guarantee approximating to that adopted by the Government of India, whereby a *minimum* rate of interest is assured upon the capital actually employed in constructing and working a railway, and any surplus profits over and above that guaranteed *minimum* are equally divided between the Government and the railway company: this system is productive of economy in construction and efficiency in working, factors which are indispensable in order to secure commercial success and satisfactory results.

Secondly, as regards the attitude of the Sublime Porte towards British interests, His Majesty's Government are far from suggesting that the Ottoman Government are at liberty to disregard their contractual obligations under the Bagdad Railway Convention simply and solely because those obligations, though concluded with evident disregard of her real interests, are burdensome to Turkey; what they do take exception to is the fact that the Ottoman Government, while showing no inclination to treat on their merits the applications for concessions and trade facilities, however modest in character, from British subjects, have apparently contemplated certain financial arrangements tending to facilitate and to hasten the progress of the Bagdad Railway towards the Persian Gulf: and inasmuch as those arrangements cannot become operative until the year 1915, the solicitude of the Ottoman Government to bind themselves *without further delay* and to smooth the way for a monopoly of the economic exploitation of the country cannot but cause serious misgiving and some perplexity to those who have at heart the financial regeneration of the Ottoman Empire. His Majesty's Government, by manifestations of practical sympathy, have given tangible proof of their desire to contribute towards that regeneration which is the foundation of all administrative reform; yet it appears that the Ottoman Government, at a time when they are desirous, on the one hand, of raising the customs duties on foreign imports from 11 per cent. to 15 per cent., are ready on the other hand to go out of their way to promote the prosecution of an enterprise admittedly burdensome to the Turkish Exchequer, without so much as attempting by negotiation with the concessionaires to bring about an alleviation of the burdens which that enterprise will involve.

In the face of these considerations, His Majesty's Government are reluctantly constrained to believe that the Ottoman Government, oblivious of the services rendered by Great Britain during the Near Eastern crisis of 1908-1909, are deliberately promoting at all costs the progress of the Bagdad Railway on its present basis and thereby undermining the commercial position of this country in Mesopotamia which has been firmly established in those regions for the last 200 years: they can only conclude that the Ottoman Government have allowed themselves to be influenced by prejudiced and unworthy suspicions in regard to British designs in that region. The policy of Great Britain in Mesopotamia is directed towards the maintenance of the *status quo*, His Majesty's Government emphatically disclaim any designs of territorial aggrandisement in those regions, and they are prepared to furnish the Ottoman Government with the most binding assurances to this effect.

I now pass to the final points to which I have alluded: British commercial interests in Mesopotamia, and the disturbance of the *status quo* which the Bagdad Railway is calculated to effect.

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The commercial position of Great Britain in the Mesopotamian delta is altogether exceptional: that position has been steadily consolidated since the foundation, upwards of two and a-half centuries ago, of the first English factory at Bussorah; in 1766 a British Resident was appointed at Bagdad; at Bussorah there has long been a British consul, charged with the care of British trade, represented up to a recent date by 96 per cent. of the shipping coming into the port; in short, such is now the nature of these commercial interests that the trade of Bagdad and Bussorah, valued at 2,500,000*l.* in 1903, is predominantly in the hands of British and Indian merchants: moreover, it may be mentioned incidentally that the annual pilgrimage of British-Indian subjects to the Shiah shrines of Kerbela and Nejef is continually increasing, the numbers in 1905 exceeding 11,000,—a circumstance which serves to emphasise the interest which this region must possess for British Indian traders and commerce.

The position attained by this country upon the waters and on the shores of the Persian Gulf has been won not without the expenditure of many millions of money and the sacrifice of many valuable lives: in the early years of the nineteenth century the slave trade was rampant in the Gulf, and the vessels of the Indian Marine were engaged in a long and arduous struggle with the Arab pirates who infested its southern coasts: this conflict, which was conducted entirely by British agency and means, without any help from the Ottoman Government, resulted in the establishment of treaty relations with the Arab chiefs, under which they bound themselves to observe perpetual peace and to refer all disputes to the British Resident at Bushire. The *pax Britannica* which has ever since, with rare exceptions, been maintained, is the issue of these arrangements and is the exclusive work of this country. It is owing to British enterprise, to the expenditure of British lives and money, that the Persian Gulf, not excluding the approaches to the Turkish ports of Bagdad and Bussorah, is at this moment open to the navigation of the world: indeed to these causes alone it may be said that the seaborne trade of Mesopotamia owes its very existence. The situation of Great Britain in the Persian Gulf has been well described as unique: for although she has not sought territorial acquisitions in those regions, she has for generations borne burdens there which no other nation has ever undertaken anywhere, except in the capacity of sovereign; she has had duty thrust upon her without dominion; she has kept the peace amongst people who are not her subjects; has patrolled, during upwards of two centuries, waters over which she has enjoyed no formal lordship; has kept, in strange ports, an open door through which the traders of every nation might have as free access to distant markets as her own.

I have dwelt at some length upon the position of Great Britain in Mesopotamia and the Persian Gulf because it is desirable that the Ottoman Government should be able to appreciate fully the disturbance of long-established interests which the Bagdad Railway, the most direct route between this country and the Indian Empire, is likely to entail. This will appear the more accurate when it is recalled that under the terms of the concession, the promoters of that enterprise not only are entitled to establish ports at the important trade centres of Bagdad and Bussorah, but under various articles a number of minor but valuable rights are conferred upon them: exemption from customs dues for all materials, machinery, rolling-stock, iron, wood, coal imported from abroad during the period of construction, and exemption from taxation of the company's entire property and revenue during the whole term of the concession; mining and quarrying and forest rights within a zone of 20 kilom. on either side of the railway; the right to establish warehouses, elevators and shops; to manufacture bricks and tiles, and to make free use of any natural water power in the vicinity of the line—all tending to confer a monopoly of the economic development of the country.

It has been incumbent on His Majesty's Government to consider most carefully in what manner they can legitimately, and with due regard to the economic and general welfare of the important Ottoman provinces concerned, prevent the establishment of such a monopoly expanding throughout the whole region of Mesopotamia; forestall the destruction of British commercial interests which it would perforce accomplish; maintain an open door for the trade of all nations; and protect the larger interests in India and the Persian Gulf which the completion of the Bagdad Railway, as at present controlled, is destined to influence.

They have come to the conclusion that the only course now open to them which could at the same time promote the objects in view would be the construction of a "protective" railway. I have therefore to request your Excellency to renew the application which you have already made to the Ottoman Government for a railway concession along the valley of the River Tigris: the precise course of the line would

be a matter for subsequent arrangement; what His Majesty's Government at present desire is that the Sublime Porte should accede to their application forthwith in principle; and for this object it does not appear necessary to go further than to say that the line would approximately follow the valley of the Tigris from Bagdad to Kut-el-Amara, and that from that point it would proceed in a south-easterly direction to Bussorah, and from that point to Koweit. The cost of the railway would naturally depend upon the gauge and the results of the surveys, but His Majesty's Government would not call upon the Ottoman Government for any guarantee whatsoever, and they would be prepared to recommend a group of financiers of high standing who would provide for the construction and working of the line under a Turkish company.

Such a railway, when constructed, could not be looked upon as involving any prejudice to the Bagdad Railway Company, since in the first place it would serve a region which is distant in places over 160 kilom. from that company's proposed alignment, while in the second place its object,—an entirely legitimate one,—is to protect long-established British interests which the Bagdad Railway is calculated to displace: British trade is indeed interested in the district in question in an especial degree, since the annual volume of our trade passing into Persia alone via Bussorah and the Tigris valley is estimated at 750,000*l.*

I have accordingly to request your Excellency to read this despatch, in translation, both to the Minister for Foreign Affairs and to the Grand Vizier, and to communicate a copy to them. I desire your Excellency at the same time to press them to give an early and favourable reply to the application of His Majesty's Government, with facilities for a preliminary survey at an early date, and I have to emphasise to your Excellency, for the information of the Ottoman Government, that His Majesty's Government will in no circumstances agree to the desired increase of the customs duties until the Ottoman Government show a disposition to meet their wishes with regard to this concession, and that the future attitude of this country towards the Ottoman Empire will be largely affected by the reception with which your Excellency's application may meet.

I am, &c.

(For the Secretary of State),

CHARLES HARDINGE.

[11956]

No. 49.

Sir Edouard Grey to Sir F. Bertie.

(No. 199. Secret.)

Sir,

Foreign Office, April 23, 1910.

THE French chargé d'affaires called on the 6th instant and read a telegram which he had received from his Government, enquiring whether His Majesty's Government had any information to the effect that a promise had been obtained from the Turkish Government for financial facilities to extend the Bagdad Railway from El Halif to Bagdad, the arrangement being that the excess of the tithes should be allocated for this purpose, from 1915, in consideration of the renunciation by Germany of any claim to the proceeds of the 4 per cent. increase of the Turkish customs duties.

Mr. Mallet informed him, in reply, that His Majesty's Government had received this information, and that Sir G. Lowther had been instructed to inform the Turkish Government that His Majesty's Government regarded the arrangement as a mere evasion of their condition as to the 4 per cent. customs increase, to which they would only consent if British participation in the Bagdad Railway were arranged on satisfactory terms.

I am, &c.

E. GREY.

[14056]

No. 50.

Sir G. Lowther to Sir Edouard Grey.—(Received April 25.)

(No. 222.)

Sir,

Constantinople, April 13, 1910.

I HAVE the honour to forward herewith a despatch from the British acting vice-consul at Adana, reporting the commencement of work on the Bagdad line near Adana.

I have, &c.

GERARD LOWTHER.

Enclosure in No. 50.

Acting Vice-Consul Rawlins to Sir G. Louther.

(No. 15.)

Sir,

Adana, April 8, 1910.

I HAVE the honour to report that work has just commenced upon two small sections of the Bagdad line. One small section of about 6 kilom. has been given in contract to an Italian, and the latter has begun throwing up earthworks: the work is towards Adana, and starts from a village about half way between this town and Missis. Another small section, also towards Adana, has been given over to an Austrian, who has just left for Missis, and will start work from there on Monday the 11th.

Work will probably be begun upon various sections shortly, notably from Yenidje towards the Eregli branch, and at various spots between Adana and Missis, but the two sections mentioned above, are the first upon which operations have, as yet, been commenced. It is interesting to note that, contrary to what was expected, no official ceremony has marked the beginning of work upon the Bagdad line in this district, although, perhaps, some such ceremony may take place when work is really started in Adana itself.

I have, &c.

E. C. DONALDSON RAWLINS.

[13997]

No. 51.

Sir E. Goschen to Sir Edward Grey.—(Received April 25.)

(No. 117.)

Sir,

Berlin, April 22, 1910.

"GERMANY in the Bagdad Corner" is the suggestive title of the leading article in the "National-Zeitung" of the 20th April, which opens with a quotation from a recently published book entitled "Wanderings in Persia," by Dr. Hugo Grothe, a well-known authority on Eastern questions. I venture to reproduce this passage *in extenso*, as it seems to me to possess a certain significance at the present stage of the Bagdad Railway question:—

"England's most recent efforts aim at gaining a predominant commercial position on the Persian Gulf and in Mesopotamia before the construction of the Bagdad Railway puts German capital in a position to bring its force to bear in these regions. This object England hopes to achieve by undertaking the irrigation of ancient Chaldaea, by obtaining the monopoly of the navigation of the Tigris and Euphrates, and by developing the petroleum springs of Mesopotamia. England's efforts afford proof that in the struggle for these territories she regards Germany as a less determined and tenacious adversary than Russia would be. Should England prove successful in her endeavours, and secure an undivided predominance on the Persian Gulf and in Mesopotamia, there would be very little prospect of Germany's hopes being realised of playing a commercial rôle in Mesopotamia or of influencing the Persian market from the south and south-west. All who are familiar with the spirit and methods of the Near East will echo the hope that German diplomacy will set every spring in motion to prevent an issue arising which would cause Germany to recede fifty years in the estimation of both Turks and Persians."

The "National-Zeitung" says that this passage in Dr. Grothe's book goes to the very root of the competition between England and Germany. After upholding the right of the Deutsche Bank to enter into financial negotiations with the Persian Government without consulting Anglo-Russian sensibilities, the article observes that England is working hard to close the "Indo-Egyptian ring" by drawing the Perso-Mesopotamian segment of the circle, but that it is of vital importance for Germany to keep open the circle at this point so as to permit the passage of the Bagdad Railway. The article concludes with the words: "The maintenance of the open door in the Bagdad corner must be regarded by German diplomacy as one of its most important tasks."

I have, &c.

W. E. GOSCHEN.

[14076]

No. 52.

Mr. Barry to Foreign Office.—(Received April 25.)

2, Queen Anne's Gate, Westminster, S.W.,
April 23, 1910.

Dear Mr. Mallet,

I AM much obliged to you for your letter of yesterday's date. I think we quite understood the situation from what you said, but I am very glad to have it placed on record. M. Tardieu has just left me, but I am forwarding on a copy of your letter to him in Paris, so that he is sure to have it before he sees M. Pichon on Monday.

M. Tardieu tells me that he saw M. Cambon again last night, and that they have arranged to see M. Pichon together on Monday. On Tuesday morning I shall receive from M. Tardieu information as to the result of his interview, and shall, if I may, have pleasure in communicating the same to you.

M. Cambon gave M. Tardieu to understand that although he considered his own arrangement was better calculated to promote the interests and prestige of France than the one of which M. Pichon had approved, yet under the circumstances which had arisen, he thought there would not be much difficulty in arriving at a compromise.

With all deference to M. Cambon's opinion, I cannot help thinking that if now the French put forward a new claim for a purely French concession for the whole railway from Homs to Bagdad in opposition to that presented by Youssouf Seyyid Bey, with which the Young Turks are in sympathy, and which the Germans are not as yet, at any rate, opposing, they will have to face opposition both direct and indirect, with the possible result that the whole question will be hung up indefinitely.

I will be careful to draw M. Tardieu's attention to the fact that the question of the construction of the Bagdad-Gulf Railway must be kept separate from the Homs-Bagdad Railway.

Yours, &c.

A. J. BARRY.

[11933]

No. 53.

Sir Edward Grey to Messrs. Ogilvy, Gillanders and Co

(Confidential.)

Gentlemen,

Foreign Office, April 25, 1910.

I AM directed by Secretary Sir E. Grey to acknowledge, with thanks, the receipt of your letter of the 5th instant furnishing your views in regard to the project for a railway along the Tigris Valley from Bagdad to the Persian Gulf.

I am to inform you, in reply, that the matter will receive careful consideration.

I am, &c.

E. GREY.

[14510]

No. 54.

Sir A. Nicolson to Sir Edward Grey.—(Received April 27.)

(No. 134.)

(Telegraphic.) P.

St. Petersburg, April 27, 1910.

BAGDAD Railway.

Russian Ambassador at Constantinople has telegraphed to his Government that discussions have now recommenced with regard to the southern section of the railway, and stating that it was possible that some arrangement respecting British participation would be arrived at. The Acting Minister for Foreign Affairs, when informing me of this to-day, asked me to ascertain whether anything fresh was passing in this connection.

[14510]

No. 55.

Sir Eduard Grey to Sir A. Nicolson.(No. 196. Secret.)
(Telegraphic.) P.*Foreign Office, April 28, 1910.*

IN reply to your telegram No. 134 of to-day's date, we know of no negotiations for British participation in the southern end of the Bagdad Railway. In fact we have received from the German Government a categorical refusal to admit British participation except on condition that we make a general agreement between ourselves and them respecting all European questions.

You are therefore authorised to inform the Russian Government that His Majesty's Government, under these circumstances, will approach the Porte with a view to obtaining a separate concession for a railway to the Gulf from Bagdad following the line of the Tigris Valley. You should inform Russian Government that this information is confidential.

[14835]

No. 56.

Mr Barry to Foreign Office.—(Received April 30.)

2, Queen Anne's Gate, Westminster, S.W.,
April 28, 1910.

Dear Mr Mallet,

I ENCLOSE for your information a copy of a letter I received to-day from M. Tardieu. In this letter M. Tardieu sets forth the alterations in the terms of the agreement already approved by M. Pichon, which the latter now wishes to make after his recent interview in Paris with M. Cambon.

Instead of half the capital being found by the British and French financiers respectively, he now proposes that 60 per cent. should be found by the French and 40 per cent. by the English.

Instead of the director-general of the Anglo-French Company being English, as previously agreed, he now desires that the director-general should be a Frenchman.

Instead of the members of the "conseil" being half French and half English, he now proposes that five should be French and only three English.

Instead of half of the material being supplied from France and half from England, he now proposes that three-fifths be supplied by France and two-fifths by England.

It seems to me that the modifications proposed will make the company entirely French instead of Anglo-French. After consulting with my friends, I have come to the conclusion that it would be difficult to raise English capital for a purely French company, and that the terms now substituted by M. Pichon for those which he had already agreed, should be adopted, would practically eliminate British interests from the line. We propose, therefore, to urge M. Pichon either to restore the conditions that the director-general should be an Englishman, or to agree to divide the whole railway into two sections, the mileage of which should be as six to four, and that the longer section, which would form a junction with the Syrian railways, should be constructed entirely by the French, and the shorter section by the English, and that after completion the two sections should be worked as one railway under a joint board. If it be found impossible to arrange some such terms as these, it may well be necessary for Youssouf Saïd Bey to proceed with his application independently of French support. If he succeeds, and after all he will have this in his favour that he will at least have no German opposition to face, at least, if he falls in with their suggestion to take his line to Aleppo, owing to his agreement with me, a copy of which I enclose, the railway will have to be worked under British control.

I leave to-day for Paris to confer with M. Tardieu.

Yours sincerely,

A. J. BARRY.

Enclosure 1 in No. 56.

M. Tardieu to Mr. Barry.

Cher Monsieur,

Paris, le 27 avril, 1910.

JE sais officieusement, et je saurai demain officiellement, que les modifications demandées sont les suivantes :—

Capital : 60 pour cent français ; 40 pour cent anglais.

Président : Français.

Conseil d'Administration : Cinq Français ; trois Anglais.

Directeur de l'exploitation (nommant le personnel) : Français ; commandes réparties 60 et 40 pour cent.

J'ai répondu à cette communication officieuse que, vis-à-vis de vous, je me bornerais à vous la transmettre quand on me la ferait officiellement, car je voulais à tout prix ne pas m'engager. Maimon me dit qu'à son avis la solution est de demander un conseil technique ("consulting engineer") anglais.

Mais cela vous convient-il ? Cela vous suffit-il ?

Je vous prie de me télégraphier le plus tôt possible.

Tout à vous,

ANDRÉ TARDIEU.

Enclosure 2 in No. 56.

Youssouf Saïd Bey to Mr. Barry.

Sir,

Constantinople, July 21, 1909.

IN consideration of your promise to put me in a position to prove to the Ottoman Government that, in asking for the concession for a railway from the Mediterranean to the Persian Gulf, I am supported by people capable of assisting me financially to bring the enterprise to a satisfactory conclusion, I agree with you not to transfer the concession to the company which will be formed without stipulating as one of the terms to be carried out by the latter, that you shall be the engineer-in-chief for the construction, or at any rate one of the two engineers-in-chief, if the financial preparation necessitates a second engineer, and that you shall be the engineer-in-chief for the control of the working of the line.

I would ask you therefore, Sir, to have a letter written to his Excellency the Minister of Public Works and Commerce of the Ottoman Empire, in the above sense. As a matter of form please write me that we are entirely in agreement.

I have, &c.

YOUSSEUF SAÏD.

[11933]

No. 57.

Sir Edward Grey to Tercik Pasha.

FROM a careful perusal of the terms of the Bagdad Railway Convention of 1903 (of which a copy is enclosed for facility of reference), it will be observed that there is no clause which confers on the holders of the concession a monopoly of railway construction in Mesopotamia; indeed, according to article 42, it is laid down that the land to be expropriated shall be strictly confined to the area which is necessary for the railway. Moreover, it cannot equitably be contended, apart altogether from the terms of the convention of 1903, that, because a concession for a railway has been granted to certain promoters along one specified alignment, the Ottoman Government are *ipso facto* debarred from granting a further concession to other parties when that concession is for a railway destined to serve another district. Such a contention, if advanced, would be utterly preposterous; and inasmuch as it is stipulated in article 34 that all disputes respecting the execution and interpretation of the convention of 1903 shall be settled in the Ottoman courts, the ultimate decision as to what the Ottoman Government may and may not do with regard to granting further concessions would rest with those courts and with no foreign Power.

The German Government have definitely informed His Majesty's Government that British participation in the Bagdad Railway will not be admitted on terms which His Majesty's Government could possibly approve. In these circumstances, His Majesty's Government renew the application, to which the ex-Grand Vizier acceded in principle in September last, for an entirely separate concession as indicated in the enclosed despatch to His Majesty's Ambassador at Constantinople. The reception with which this renewed application may meet will, as stated in the despatch, affect the future relations of this country towards the Ottoman Empire.

Foreign Office, April 30, 1910.

[14473]

No. 58.

Sir Edward Grey to Sir F. Bertie.

(No. 219. Secret.)

Sir,

Foreign Office, May 2, 1910.

THE French Ambassador called on the 21st ultimo, and spoke at some length about the proposed Homs-Bagdad Railway. It appeared that the French Government had asked formally for the concession, and that they intend to press for it, with the support of His Majesty's Government, at Constantinople. As regards the project of M. Tardieu and Mr. Barry, or indeed, the scheme of anybody else, the French Government would decline to consider them until the concession had been obtained; nor were they prepared to commit themselves to any company, French or foreign, until they were in a position to know the conditions which the Turkish Government would demand. M. Tardieu was going to see M. Cambon on the following morning, and his Excellency would speak to this gentleman in the above sense.

Mr. Barry appears to have given the French Minister for Foreign Affairs to understand that His Majesty's Government were warmly supporting his scheme: but Sir C. Hardinge explained to M. Cambon that he had himself made it quite clear to Mr. Barry that His Majesty's Government regarded the Bagdad-Homs Railway as a future French concession, in which British participation had been invited, and that Mr. Barry could only expect the support of His Majesty's Government if his group and scheme had received the support and approval of the French Government.

I am, &c.

E. GREY.

[16610]

No. 59.

Sir Edward Grey to Sir E. Goschen.

(No. 121. Secret.)

Sir,

Foreign Office, May 5, 1910.

TO-DAY the German chargé d'affaires, after mentioning a point of detail about Persia, which I have recorded separately, enquired what was my view as to proceeding to discuss an agreement with Germany as to Persia in the light of what Herr von Bethmann-Hollweg had said.

I replied that I had not seen much material for an agreement in what Herr von Bethmann-Hollweg had said about Persia, and with regard to the Bagdad Railway his attitude had been discouraging. I had sent his proposals to the Prime Minister: but I had not seen the latter for about three weeks now. I knew he had been very fully occupied before Parliament rose last week, and I did not expect to see him until a fortnight hence. Therefore, although I intended to write my own personal reflections to you, I did not think I could discuss the matter further in conversation at present.

The German chargé d'affaires had evidently anticipated that we would be disappointed by what had been said about the Bagdad Railway and the navy, and he explained to me that as these questions might take a long time to settle it would be well to make progress first with the Persian matter. Herr von Bethmann-Hollweg was quite willing to recognize the special position which we had in Persia, and our sphere of influence there; but he could not make this recognition, and thereby give up the full commercial rights which Germany had in Persia by treaty, unless he was able to prove to German public opinion that he had obtained some *quid pro quo*. The Persian question might become urgent soon, because, though the negotiations for a loan had fallen through for the moment, the Persian Government were much in need of money,

and we and Russia might secure all the railways in return for a loan. The chargé d'affaires mentioned the promise which we already held with regard to railways in the south, and he said that if Germany waited she might find herself entirely excluded, whereas if she took advantage of the present situation she might perhaps get some concessions. His idea was that, in return for a German recognition of our special position and sphere in Persia, we might agree to give the Germans orders for about 25 per cent. of the materials for such railways as we build in that country.

I told the chargé d'affaires that the idea of a separate agreement about Persia seemed to be receiving more emphasis from him now than it had when Herr von Bethmann-Hollweg had spoken to you, and I asked whether the Chancellor's view had changed in this direction since last he saw you.

The chargé d'affaires gave me to understand that there had been a change, for the reason he had already mentioned: that the Persian question might become urgent soon, while the other matters might take months to settle.

I said that I supposed a similar arrangement with Russia was contemplated.

The chargé d'affaires replied that this was the case. It was proposed to have a similar agreement with Russia, and to sign it simultaneously. His Government feared, however, that Russia might build railways in the north of Persia to promote her own trade, but would be unwilling to link these lines with the Bagdad Railway; and they wished to guard against this.

I then said that in writing to you I would bear in mind what he had told me as to the Chancellor's most recent view with regard to a Persian agreement. One difficulty, however, which occurred at once with regard to it was that, if we were to give Germany a participation of 25 per cent., why should not other countries not ask us for a similar participation, and what were we to say to them?

The chargé d'affaires urged that Germany was in a special position, owing to her rights in the Bagdad Railway; and he asked me what other countries I thought likely to put forward a claim for participation.

I answered that France would certainly wish to participate, and Austria also, for she had taken exactly the same attitude with regard to Persia as Germany had taken. Other countries would probably follow suit.

He suggested that this difficulty might be met if we and Germany took 55 per cent. in every case, and left the remaining 45 per cent. to be disputed for by the other countries.

I concluded by saying that all I could promise for the moment was to bear in mind the special desire for an agreement as to Persia when I was writing my views to you.

I am, &c.

E. GREY.

[15876]

No. 60.

Sir A. Nicolson to Sir Edward Grey.—(Received May 9.)

(No. 211.)

Sir,

St. Petersburg, April 28, 1910.

M. SAZONOFF informed me yesterday that he had heard from the Russian Ambassador at Constantinople that discussions had been resumed as to British participation in the southern section of the Bagdad Railway, and that there were some prospects that the discussions might lead to an arrangement. He asked if I had heard anything on the subject. I replied in the negative, and said that I would make enquiries.

M. Sazonoff added that the Emperor had lately been speaking to him on the subject of the Bagdad Railway, and had enquired whether England had any "legal right" to claim a share in the construction and control of the southern section. I told his Excellency that of course no "legal right" existed, but it was clear that a line debouching on the Persian Gulf where British interests were of the highest importance was a matter of the greatest concern to us. We considered, therefore, that in respect to the southern section we should endeavour to obtain at least a preponderating interest. We were consequently desirous of inducing the German Government to recognise and accord to us what we considered to be essential to the safeguarding of our interests. He was aware of the methods by which we were, so to speak, exercising pressure towards that object, and he was acquainted with the

[1723]

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proposals, not perhaps entirely harmonious, which had been severally made by the German Government and the Deutsche Bank.

I have, &c.

A. NICOLSON.

[15932]

No. 61.

Sir G. Lowther to Sir Edward Grey.—(Received May 9.)

(No. 270.)

Sir,

Constantinople, May 3, 1910.

I HAVE the honour to forward herewith a despatch from His Majesty's vice-consul at Adana reporting on the progress of surveying work for the construction of the Bagdad Railway and the completion of the company's private telegraph line between Eregli and Adana.

I have, &c.

GERARD LOWTHER.

Enclosure in No. 61.

Vice-Consul Rawlins to Consul-General Eyres.

(No. 3.)

Sir,

Adana, April 24, 1910.

WITH reference to various reports upon the Bagdad Railway construction in this district which I have had the honour of addressing to His Majesty's Embassy, I beg now to be allowed to transmit some further information upon recent events in connection with the same subject.

Mr. Winkler, the head engineer, has recently left here for Aleppo for the purpose, it is said, of conferring with Mr. Meissoner (Meissoner Pasha, late constructor of the Hedjaz line), who will be appointed head engineer of the Bagdad construction in Aleppo.

Mr. Winkler is returning in two weeks, and will then continue directing affairs from the offices in Adana. Beyond the work lately commenced between Adana and Missis, and reported upon in my despatch No. 15 of the 8th April to His Majesty's Embassy, no new portion of line construction has been undertaken, but surveying is being busily carried on in Hamidieh, and also, I hear, in Alexandretta. In Hamidieh a permanent office has been opened, and many engineers, &c., have left for that town.

Another point worthy of interest is the completion of the company's private telegraph line (single wire) between Eregli and Adana.

This line, coming right away down from Eregli and past Bozanti, meets the Mersina-Tarsus-Adana Railway at Yenedjé (about half-an-hour from Adana) and then runs parallel with the wires of that company right up to Adana and finishes in the offices of the Bagdad Company.

I have, &c.

E. C. DONALDSON RAWLINS.

[15938]

No. 62.

Sir G. Lowther to Sir Edward Grey.—(Received May 9.)

(No. 276. Secret.)

Sir,

Constantinople, May 3, 1910.

I TO-DAY read to the Minister for Foreign Affairs and to the Grand Vizier your despatches Nos. 96 and 107 of the 18th and 20th ultimo, setting forth the point of view of His Majesty's Government with regard to the negotiations which are in progress between the Ottoman Government and the Bagdad Railway Company for the prolongation of the line from El Halif to Bagdad, and I renewed the application which I had already made last year for a railway concession along the valley of the Tigris on the lines indicated in your despatch No. 107, Secret, of the 20th ultimo, of which I left his Excellency a translation.

Rifaat Pasha said that this proposal required careful study, which he and his colleagues would give it. Meanwhile, he would merely observe that it was not the

Ottoman Government that had urged the continuation of the line from El Halif to Bagdad; it was the attitude assumed by Great Britain in connection with the increase of the 4 per cent. customs dues, and the demand made from the Bagdad Company to abandon their claim to this that had led the company to negotiate with a view to obtaining guarantees for the conclusion of the Halif-Bagdad section. The Ottoman Government, his Excellency observed, were now placed in such a difficult position with regard to the 4 per cent., that it appeared as if it would be necessary to abandon it if the Powers maintained their present attitude. M. Bompard had, before leaving for Paris a few days ago, repeated that the French Government asked for no conditions, but that if other Powers insisted on such France would ask for a concession for the Homs-Bagdad line.

Italy had intimated that further conditions might be asked for beyond the settlement of the claims. Even the American Government had stated that their consent would depend on the Chester concession being granted, and the order for the battle-ships being given to an American firm of shipbuilders. The Minister for Foreign Affairs and the Grand Vizier had been obliged to reply somewhat sharply to these latter suggestions of my American colleague.

His Excellency said he hoped that His Majesty's Government would not for a moment believe that the Ottoman Government were oblivious of the services rendered by Great Britain during the crisis of 1908-9. Their object in negotiating with the Bagdad Railway was merely to satisfy our demands regarding the 4 per cent. Nor did the Ottoman Government entertain any suspicion regarding British designs on Mesopotamia. They were most anxious to find a way out of the difficulty without offending Germany, to whom they were morally bound for the completion of the line when funds were available. As regards the section Bagdad-Persian Gulf, it seemed to his Excellency possible to exclude it from the domain of the Bagdad Railway Company, and perhaps the best solution would be for the Turkish Government to construct that section of the line themselves. He would not, however, offer any definite observation on the proposals of His Majesty's Government until he had consulted his colleagues.

The Grand Vizier, whom I saw later, spoke in much the same sense, but said it was incomprehensible to him that his predecessor should have given anything in the nature of assurances regarding a modification of the Bagdad convention, for they found themselves confronted by the terms of the convention and by the legal obligation to continue the line to Bagdad.

It was also absolutely necessary in their own interests and to justify the sacrifices they were now making for the working guarantee that the line should have its terminus at a big centre instead of stopping in mid-air, as it were, at Halif. What, however, he was determined to endeavour to obtain from the Germans concurrently with any arrangement for the continuation of the line to Bagdad was an abandonment of their claim to build the section Bagdad-Persian Gulf. It would no doubt be very difficult to succeed in this, as it obviously entailed a considerable sacrifice for the German company, but he felt that he would be able to obtain it. His idea was that that section should be built by the Ottoman Government, if necessary with foreign capital. Beyond that he had not considered the question in detail. The specific proposal now put forward by His Majesty's Government would have the careful attention of the Ottoman Government, and a reply would be sent in the same form in which it had been received.

He reminded his Highness that you, Sir, had all along been placed in a somewhat difficult position in having to justify to the British mercantile interests the imposition of an additional duty of 4 per cent. which would contribute to the success of a line ultimately destined to injuriously affect our commercial position in portions of the country traversed by it—an argument which was all the stronger as Great Britain was a Free Trade country which practically left all Turkish imports untaxed.

His Highness specially begged that his intentions as regards inducing the German Government to abandon the Bagdad-Gulf section, as well as the British proposal now made, should be kept strictly confidential, as any suspicion of a bargain being made would militate against the success of their negotiations for obtaining the 4 per cent. increase.

I have, &c.

GERARD LOWTHER.

[16176]

No. 63.

M. Maimon to Mr. Mallet.—(Received May 9.)

Dear Sir,

Paris, May 8, 1910.

IN the absence of Mr. Barry, and with his knowledge, I take the liberty to send you herein enclosed copies of the following documents:—

(a.) M. Pichon's forwarding letter to M. Cambon dated the 3rd May, 1910. On the second page you will find a marginal note which his Excellency added to the text after the conversation he had had with M. Bompard immediately on his arrival at Paris last Monday;

(b.) A telegram from M. Pichon to M. Bompard dated the 29th April, 1910, on the very day the latter left Constantinople;

(Seeing the character of these documents, I should naturally like to feel that their possession by you will never be known outside your department);

(c.) My letter to M. Tardieu of the 5th instant;

(d.) A letter from M. Tardieu to Mr. Barry dated yesterday;

(e.) A letter from M. Tardieu to M. Pichon of the same date. To this I annex a cutting from the "Sabah" of the 5th March, 1910, alluded to in the above, as well as a copy of my letter to Mahmoud Chevké Pacha, dated the 20th March, 1910, in which you will find the six principal conditions reproduced by the "Sabah" in Turkish, and obtained by the editor of that paper from the Minister of Public Works. I have seen the same reproduced by some of the other local papers.

M. Bompard was to have gone to London on Friday evening in order to confer with M. Cambon before presenting his written report to M. Pichon.

Believe me, &c.

BERNARD MAIMON.

Enclosure 1 in No. 63.

M. Pichon to M. Paul Cambon.

Paris, le 3 mai, 1910.

PAR votre rapport du 22 avril vous avez bien voulu me faire part de certaines observations au sujet du Chemin de Fer de Homs-Bagdad et du projet présenté par M. Tardieu et Mr. Barry, lequel vous semblait ne pas assez tenir compte du droit et de l'intérêt qu'a la France de conserver la haute main sur la direction de cette ligne, et de n'y admettre les Anglais que dans la mesure qui nous conviendra.

Pendant votre dernier séjour à Paris j'ai eu l'occasion de m'entretenir, à ce sujet, en votre présence, avec M. Tardieu et de lui déclarer que la forme dans laquelle nous pourrions admettre le règlement de cette affaire serait la suivante:—

La prépondérance française devrait être assurée:

1. Par la nomination de Français à la direction générale et à la présidence du Conseil d'Administration;
2. Une supériorité numérique d'administrateurs français par rapport aux administrateurs anglais;
3. Un chiffre de la participation financière des deux groupes à fixer ultérieurement mais avec un minimum de 60 pour cent pour le groupe français.

M. Tardieu, après en avoir référé à Mr. Barry et s'être mis d'accord avec lui et avec les deux groupes respectifs qu'ils représentent, m'a adressé la lettre ci-jointe en copie, dans laquelle il me communique le texte de son projet révisé dans le sens désiré par nous.

Je vous serai obligé de bien vouloir me faire connaître votre sentiment, au sujet du nouveau projet qui nous est soumis et qui semble assurer, dans la direction de cette affaire et la constitution de la future société, la prépondérance de l'élément français que nous avons jugé indispensable et nécessaire.

[Marginal note]:

J'ajoute, pour compléter votre information, que M. Bompard, auquel j'ai parlé de cette affaire, ne semble pas la considérer comme susceptible d'être accueillie favorable-

ment par le Gouvernement turc. Il prévoit que l'opposition du Gouvernement de Constantinople au projet de la ligne Homs-Bagdad sera d'autant plus vive qu'il y aura dans l'entreprise un concours anglais. Il considère l'opposition turque comme irréductible en ce qui concerne l'irrigation de la Mésopotamie, et d'une façon générale il n'a pas confiance dans le succès de la demande que nous avons formulée à Paris à la date du 12 janvier dernier et renouvelée à Constantinople le 14 avril. J'ai prié notre Ambassadeur à Constantinople de formuler par écrit son opinion sur toute cette affaire, et je vous en saisis dès qu'il m'aura adressé la dépêche que je dois recevoir de lui.

Enclosure 2 in No. 63.

M. Pichon to M. Bompard.

Le 26 avril, 1910.

(Télégraphique.)

M. GOUT a été chargé de vous mettre au courant des offres qui m'ont été apportées par un groupe anglais en vue de la concession d'une ligne de Homs à Bagdad. Les propositions qui m'ont été faites me paraissent satisfaisantes. Je les ai acceptées en principe, sous les réserves suivantes: Le président du Conseil d'Administration et le directeur général seront Français; une part prépondérante serait réservée à la France quant au capital, à l'administration, et à l'exploitation de la ligne; l'ingénieur-conseil de la société pourrait être Anglais. Mr. Barry et M. Tardieu viennent de me notifier l'approbation de leur groupe à un projet ainsi arrêté. Comme ils me demandent une réponse rapide, je vous prie de me télégraphier votre avis à ce sujet. Je crois qu'il faudrait, dans la circonstance, faire appel au concours financier de la Banque ottomane.

Enclosure 3 in No. 63.

M. Maimon to Chevket Pasha.

Excellence,

Constantinople, le 7 (20) mars, 1910.

COMME suite de la conversation que j'ai eu l'honneur d'avoir hier avec votre Excellence, je vous transmets ci-joint copie de la dernière lettre envoyée au Ministre des Travaux Publics le 17 février par Youssouf Saïd Bey, mon associé dans le projet Homs-Bagdad.

La lecture de cette lettre et les conditions y énoncées prouveront à votre Excellence que mon projet est inspiré par un fervent désir d'assurer au Gouvernement constitutionnel ottoman la propriété d'une ligne ferrée directe à voie normale de la Méditerranée à Bagdad dans des conditions répondant à ses véritables intérêts, le mettant simultanément à même de s'affranchir des réclamations plus ou moins dépourvues de base qui pourraient être élevées contre lui par des tiers.

En jetant les yeux sur la carte que j'ai cru devoir vous faire remettre, votre Excellence constatera qu'en établissant le tracé de la ligne sur la rive gauche de l'Euphrate entre le confluent du Khabour et Anah, j'ai évité une grande courbe inutile, et qu'en le continuant d'Anah à Bagdad sans passer par Hit et Séklavié j'ai obéi à la préoccupation de prévenir tout prétexte à conflit avec des concessions déjà accordées.

J'ai, &c.

BERNARD MAIMON.

Enclosure 4 in No. 63.

Youssouf Saïd Bey to Haladjian Effendi.

Excellence,

Stamboul, le 17 février (2 mars), 1910.

J'AI l'honneur de déclarer à votre Excellence que j'ai accepté toutes les modifications qui m'ont été imposées par votre Ministère dans le projet que je lui ai soumis pour la construction et l'exploitation d'un chemin de fer à voie normale de Homs à Bagdad, passant par Tadmor, Deir et Anah.

M'inspirant du désir que m'avait exprimé en dernier lieu l'adjoint de votre Excellence et après avoir consulté mon groupe, j'ai l'honneur de déclarer à votre Excellence que si le Gouvernement Impérial prétend construire lui-même ladite voie ferrée au moyen d'un emprunt, je suis à même de lui faire la proposition ci-contre.

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Après avoir obtenu l'adhésion de mon groupe à ces conditions, sur le désir qui m'a été exprimé par l'adjoint de votre Excellence et auquel j'ai accédé dans l'intérêt de mon pays, je me plais à espérer que le Gouvernement Impérial daignera me témoigner son appréciation en leur accordant la suite qu'elles comportent.

Par la même occasion j'ai l'honneur de porter à votre connaissance le fait que mon associé dans l'entreprise sollicitée, M. Bernard Maimon, est de retour depuis hier à Constantinople et qu'il se tient à votre entière disposition pour tous détails se rattachant à l'un ou l'autre de ces deux projets.

J'ai, &c.

YOUSSEUF SAÏD BEY,
Fils de feu Mehmed Halis Pacha.

Enclosure 5 in No. 63.

General Conditions.

LE Gouvernement Impérial construira la ligne au moyen du produit d'obligations portant un intérêt de $4\frac{1}{2}$ pour cent que mon groupe souscrira ferme à un taux de prise à être déterminé d'un commun accord.

2. L'intérêt et l'amortissement de ces obligations seront gagés par les recettes de la ligne. Si les recettes n'étaient pas suffisantes pour servir le $4\frac{1}{2}$ pour cent, le Gouvernement Impérial s'engagerait à parfaire la différence.

3. Le Gouvernement Impérial aura le droit de racheter, en partie ou en totalité, lesdites obligations au pair après les premières douze années d'exploitation.

4. Jusqu'à l'amortissement de toutes les obligations, la ligne sera administrée par un directeur général nommé par le Ministère des Travaux Publics, lequel directeur général sera assisté d'un comité dont la moitié des membres sera désignée par le Gouvernement Impérial.

5. L'ingénieur en chef de la construction, ainsi que de l'exploitation, sera nommé par mon groupe et exercera ses fonctions sous la direction du directeur général, nommé par le Gouvernement.

6. Les bénéfices réalisés par l'exploitation de la ligne, après déduction de tous les frais d'exploitation et de l'intérêt susdit de $4\frac{1}{2}$ pour cent pour le service des obligations, seront partagés pendant les premières vingt-cinq années de l'exploitation de la façon suivante : 75 pour cent au Gouvernement Impérial et 25 pour cent à mon groupe.

YOUSSEUF SAÏD BEY,
Fils de feu Mehmed Halis Pacha.

Enclosure 6 in No. 63.

M. Tardieu to M. Pichon.

Paris, le 6 mai, 1910.

M. le Ministre,

VOUS avez bien voulu me faire connaître verbalement les objections qu'élève notre Ambassadeur à Constantinople contre le projet que j'ai eu l'honneur de vous soumettre, d'accord avec Mr. Barry, au sujet de la ligne Homs-Bagdad. M. Bompard, de son côté, m'a exposé lui-même ces objections. Les Turcs, d'après notre Ambassadeur, ne désirent nullement construire cette ligne. Le trafic qu'on peut espérer sera des plus médiocres. Une garantie est donc indispensable. Mais les Turcs ne l'accorderont pas : d'une part parce qu'ils manquent de ressources, d'autre part parce qu'ils ne voudraient pas concurrencer le Bagdad-Allemand déjà garanti par eux.

Sur ces différents points il me paraît nécessaire de répondre aux objections de M. Bompard ; c'est cette réponse que vous trouverez ci-dessous.

Il convient d'abord d'observer que les critiques de fond formulées par l'Ambassadeur de France à Constantinople se produisent aujourd'hui pour la première fois. Voilà plusieurs mois que la question Homs-Bagdad est agitée tant à Londres qu'à Paris. Ni au Quai d'Orsay, ni au Foreign Office, on n'a paru, au cours des négociations préliminaires, douter de l'intérêt de l'entreprise.

Il semble d'ailleurs *a priori* qu'une voie ferrée destinée à faire partie d'une ligne qui constituera la route la plus courte de la Méditerranée au Golfe Persique présente des avantages évidents. Le rattachement de cette ligne aux chemins de fer français de

Syrie, dont nous avons jusqu'ici tiré un si médiocre résultat, augmente sa valeur proprement française. J'ajoute enfin que les rapports étroits existant entre elle et les projets anglais de Bagdad au Golfe lui prêtent, au point de vue franco-anglais, un intérêt particulier.

Peut-on soutenir, néanmoins, que cette ligne n'est appelée à aucun avenir ? Je ne le crois pas. Vous savez qu'un autre projet de chemin de fer de la Méditerranée au Golfe Persique, d'un tracé différent de celui que nous vous proposons, a été établi par Sir William Willcocks. Le rapport que ce dernier a adressé le 10 octobre 1909 au Ministre ottoman des Travaux Publics contient des arguments qui s'appliquent plus fortement encore à notre projet qu'au sien, et dont je crois devoir rappeler ici les principaux.

On ne peut nier d'abord que les communications étant actuellement assurées par eau entre Bagdad et le Golfe Persique par le Tigre et le Chat-El-Arab, c'est dans la direction de la Méditerranée et de l'Europe qu'il y a un progrès à réaliser. Un chemin de fer reliant directement Bagdad à la Méditerranée permettra d'abaisser les frais de transport des marchandises à destination de la Mésopotamie. Il facilitera également le transit en provenance ou à destination de la Perse. Il sera utilisé par les pèlerins musulmans de l'Asie Centrale et de la Perse se rendant aux lieux saints de l'Islam. Il ouvrira enfin l'Irak aux voyageurs d'Europe et d'Amérique qui viendraient visiter Baalbek, Palmyre, Babylone, Ctésiphon et les autres antiquités de la Chaldée.

On prétend que, malgré cela, cette voie ferrée ne saurait être rémunératrice. A cette affirmation, je crois devoir opposer les arguments suivants :—

La ligne projetée, avec un tracé qui ne comporte aucune difficulté, sera d'un prix de revient assez peu élevé. Dans son projet Sir William Willcocks a pris pour base un chiffre kilométrique de £ T. 3,000 environ (à peu près 70,000 fr.). Les chemins de fer établis dans les plaines de la Hongrie, dans des conditions de construction sensiblement analogues, n'ont pas coûté davantage. Nous avons, dans les calculs qui vous ont été soumis, prévu un prix kilométrique supérieur afin d'être sûrs d'éviter les dépassements. Mais on peut affirmer, avec le maximum de certitude, que le kilomètre ne coûtera pas plus de 80,000 fr.

Quant au trafic, même sans tenir compte de l'augmentation certaine qu'il accusera à la suite des travaux de mise en valeur de la Mésopotamie, on peut considérer que, dès la première année d'exploitation de la ligne, il serait assuré des éléments suivants :—

1,000 pèlerins de première classe.
2,000 pèlerins de deuxième classe.
5,000 pèlerins de troisième classe.
27,000 chevaux, bestiaux, et buffles.
100,000 moutons, veaux, et chèvres.
6,000 tonnes de grains.
600 tonnes de noix de Galle.
4,650 tonnes de laine.
500 tonnes de gomme.
2,500 tonnes de dattes.
1,200 tonnes de réglisse.

Sur cette base la recette serait de £ T. 110,000 par an. Elle s'augmenterait du transport des voyageurs autres que les pèlerins, des importations de marchandises et du commerce local de station à station. C'est d'après ces éléments que Sir William Willcocks avait évalué les recettes brutes totales à £ T. 220,000. Nous croyons que ces évaluations sont plus justifiées encore par notre projet que par celui de Sir William Willcocks.

Ce n'est d'ailleurs pas d'aujourd'hui que l'intérêt de la ligne qui nous occupe a été mis en lumière. Il y a plusieurs années déjà, M. Charles Cotard, ancien ingénieur en chef de l'entreprise du Canal de Suez, s'en était fait le défenseur. Du rapport qu'il adressait au Sultan Abdul Hamid à ce sujet, j'extrait les passages suivants :—

« Une œuvre aussi grande que celle du Canal de Suez, et qui sera pour l'Empire ottoman une source de prospérité inépuisable, est à réaliser dans la Mésopotamie. C'est de mettre en communication le Golfe Persique avec l'Europe au moyen d'une voie ferrée allant de Basrah par Bagdad et la vallée de l'Euphrate jusqu'à la rencontre des lignes venant de Constantinople et en même temps de rendre à la culture, par un meilleur aménagement des eaux du Tigre et de l'Euphrate, les immenses territoires qui traversent les deux fleuves. . . . Cette ligne formera alors la grande

artère de communication entre l'Europe et l'Extrême-Orient. Sa position géographique exceptionnelle à travers cet isthme continental en fera, comme cela s'est produit pour le Canal de Suez, la route obligée des voyageurs et des marchandises qui auront intérêt à prendre la voie la plus rapide. Le transit du Canal de Suez est d'environ 8 millions de tonnes et d'à peu près 200,000 passagers (statistique 1894); quelque réduite que soit la proportion qui en sera dérivée, elle suffira pour assurer à la voie ferrée un revenu considérable."

"La contrée traversée est une des plus peuplées et des plus fertiles de la Turquie; le blé y donne jusqu'à deux et même trois récoltes par an; les autres cultures, celles du riz et du coton, y donnent aussi des résultats surprenants. Le pays produit encore de la soie, des peaux, de la laine, du tabac, de l'orge, de la canne à sucre, du chanvre, du lin et des graines oléagineuses, des gommes, des oranges, des citrons, des légumes, des fruits de toutes sortes et nourrit plus de 4 millions de chevaux et de têtes de bétail. Il y a aussi des salines, dont une seule fournit annuellement plus de 15,000 tonnes. Le pétrole et le bitume abondent dans le bassin central de l'Euphrate. Sur la section sud de Bagdad et plus haut sur les deux rives de l'Euphrate s'étendent des plantations de palmiers qui alimentent un commerce de dates considérable; plus d'un million de caisses, de coussins s'en expédient annuellement. . . D'immenses étendues de terrains marécageux peuvent être desséchées et assainies; d'autres peuvent être arrosées, le tout moyennant une dépense qui a été évaluée à une trentaine de millions de francs. . . .

"Il y a là un élément de prospérité presque inépuisable d'où il sera possible de tirer les ressources nécessaires pour rendre cette partie de l'Empire ottoman, si merveilleusement placée entre la Méditerranée et le Golfe Persique et dotée de tous les dons de la nature, sa splendeur des temps passés et en faire une des plus riches contrées du monde entier."

Je crois donc qu'il est difficile de soutenir que la ligne de Homs à Bagdad ne présente pas d'intérêt. Toutefois, faut-il penser que cette opinion défavorable soit celle du Gouvernement turc? *A priori*, non, car la Turquie, dans les circonstances actuelles, ne peut que se féliciter de l'ouverture de voies de communication nouvelles augmentant l'unité de l'empire. Les services que peut rendre à cet égard le Homs-Bagdad, complété par des embranchements, n'ont pas besoin d'être soulignés. En fait, le Gouvernement turc a toujours paru favorable aux projets qui tendraient à construire cette ligne.

Le procès-verbal de la conférence qui a eu lieu au Ministère des Travaux Publics ottoman au sujet du projet Willcocks se termine ainsi: "Si des propositions répondant à ce programme étaient faites au Gouvernement turc par un groupe sérieux, nous estimons qu'il y aurait le plus grand intérêt, pour le développement de la Mésopotamie, à les prendre en considération."

Ce procès-verbal est signé de Houloussi Bey, sous-Secrétaire d'Etat au Ministère ottoman des Travaux Publics.

En ce qui concerne le projet qui vous est actuellement soumis, il a également fait l'objet de nombreux entretiens entre le Ministère des Travaux Publics, Youssouf Saïd Bey, et Mr. Arthur Barry. Des modifications sensibles y ont été introduites à la demande du Ministère ottoman. C'est pour tenir compte des demandes du Ministère que le système de garantie exposé dans notre lettre du 15 avril a été substitué à celui de la garantie kilométrique. C'est également à la demande du Ministère qu'a été établie la forme de contrat que nous vous avons soumise et qu'a été prévu l'embranchement de Palmyre à Damas. Enfin, c'est le Gouvernement ottoman qui a exprimé sa préférence pour notre combinaison de garantie, l'estimant meilleure que les cessions de terrains prévues par le projet Willcocks.

Il paraît donc impossible de soutenir que le Gouvernement ottoman professe, à l'égard de nos propositions, l'indifférence presque hostile que paraît redouter M. Bompard. Il est plus inadmissible encore de prétendre qu'il les ignore. Il en a, du reste, fait publier le texte dans le "Sabah" du 5 mars.

Au surplus, vous avez, M. le Ministre, répondu par avance aux objections qui se produisent aujourd'hui en prescrivant à notre Ambassadeur à Constantinople de revendiquer pour la France un privilège au sujet de la construction du Homs-Bagdad. Bien que cette démarche soit très postérieure aux propositions de Youssouf Saïd Bey et n'ait, en raison de sa forme actuelle, qu'une portée plutôt théorique, il est clair que vous ne l'eussiez point prescrite à M. Bompard si l'affaire ne vous eût pas semblé viable. Votre opinion confirme donc celle que nous défendons ici. Et la question de garantie traitée dans ces conditions, en fonction des négociations douanières, ne paraît pas insoluble.

Permettez-moi, avant de conclure, d'ajouter à cet exposé quelques observations complémentaires.

Je crois tout d'abord devoir maintenir de la façon la plus formelle mes affirmations en ce qui concerne la faveur avec laquelle le Gouvernement ottoman a accueilli le caractère franco-anglais de nos propositions.

Je persiste également à penser que la Compagnie de la Bagdadbahn n'est pas, à l'endroit de notre projet, aussi hostile qu'on paraît le craindre de certains côtés. Mr. Barry, dans son dernier séjour à Constantinople, il y a deux mois, a vu M. Huguenin et a rapporté de cette conversation une impression favorable. D'ailleurs sur les indications de Sir Edward Grey, pleinement approuvées par vous, nous avons réservé la possibilité d'un accord avec la Bagdadbahn (embranchement de Deir à Alep). Je vous ai déjà fait remarquer au surplus que notre trajet évite avec soin tous les points, Hit notamment, sur lesquels la Bagdadbahn pourrait invoquer un droit de préférence.

Je me permets enfin de vous répéter ce que j'ai eu déjà l'honneur de vous dire. La question n'est plus entière. Vous avez demandé à la Turquie de reconnaître à la France des droits privilégiés au sujet du Homs-Bagdad. Il s'agit donc uniquement de savoir comment nous réaliserons les droits que vous avez revendiqués. Vous avez demandé le Homs-Bagdad, et rien d'autre. Il ne s'agit donc plus d'opter entre des combinaisons différentes, mais seulement de déterminer comment nous tirerons parti de celle à laquelle, très justement d'ailleurs, vous vous êtes arrêté.

Nous n'avons par conséquent fait que nous placer sur le terrain choisi par vous en vous soumettant nos propositions, nos devis, le profil en hauteur et le plan kilométrique de la ligne-travaux préparatoires qui donnent à nos offres un caractère de précision que vous avez bien voulu reconnaître.

Telles sont, M. le Ministre, les principales observations que je crois devoir vous présenter dès maintenant. Il va de soi que, si M. Bompard formule d'autres objections et que vous vouliez bien m'en donner connaissance, je m'empresserai d'y répondre. Il importe en effet que toute incertitude disparaissent sur ces questions préalables et que nous puissions, tous d'accord, assurer, par une exécution prompte, le succès d'une affaire dont le principe a été approuvé dès le premier jour par vous et par Sir Edward Grey.

Veillez, &c.

ANDRÉ TARDIEU.

Enclosure 7 in No. 63.

M. Maimon to M. Tardieu.

Paris, le 5 mai, 1910.

Cher Monsieur,

DANS un rapport du 10 octobre, 1909, présenté au Ministère des Travaux Publics, Sir William Willcocks examine la situation actuelle de la Mésopotamie et propose, pour l'améliorer, différents travaux, parmi lesquels il place en première ligne la construction d'un chemin de fer reliant Bagdad à la Syrie et à la Méditerranée par l'Euphrate et Palmyre.

Les arguments que présente Sir William Willcocks en faveur de ce chemin de fer peuvent se résumer comme suit:—

Les communications sont actuellement assurées entre Bagdad et le Golfe Persique par le Tigre et le Chat-El-Arab; elles deviendront d'autant moins facile qu'on détournera pour le service de l'irrigation une fraction de plus en plus importante du débit des fleuves. Mais il n'y a aucune urgence à doubler la voie fluviale de Bagdad au Golfe Persique par un chemin de fer.

D'ailleurs, l'amélioration des moyens de transports dans cette direction ne modifierait pas sensiblement les conditions économiques du pays, car les produits principaux du delta ont leurs marchés dans la Méditerranée orientale et en Europe, les produits importés venant également de l'Europe.

C'est donc dans la direction de la Méditerranée et de l'Europe qu'il serait intéressant de perfectionner les communications.

Un chemin de fer reliant directement Bagdad à la Méditerranée rendrait les plus grands services à la Mésopotamie, car il permettrait d'abaisser les frais de transport dans des proportions très élevées.

Ce chemin de fer faciliterait aussi le transit des marchandises en provenance ou à

destination de la Perse. Il serait en outre utilisé par les pèlerins musulmans de l'Asie Centrale et de la Perse se rendant aux lieux saints de l'Islam.

Enfin il ouvrirait l'Irak aux voyageurs d'Europe et d'Amérique, qui viendraient en grand nombre visiter Baalbek, Palmyre, le jardin de l'Eden, Babylone, Ctesiphon et les autres antiquités et la Chaldée.

Tout le pays serait bientôt connu et apprécié comme il le mérite, et les capitaux nécessaires à son développement afflueraient.

Le prix d'établissement du chemin de fer pourrait être très faible, le tracé n'offrant aucune difficulté. En prévoyant largement les travaux nécessaires à l'écoulement des eaux et en faisant, au contraire, les économies les plus strictes à tous les autres points de vue, Sir William Willcocks estime que la dépense ne dépasserait pas £T. 3,000 par kilomètre, soit 69,000 fr. environ.

Dès la première année le chemin de fer transporterait :

- 1,000 pèlerins de première classe.
- 2,000 pèlerins de deuxième classe.
- 5,000 pèlerins de troisième classe.
- 27,000 chevaux, bestiaux et buffles.
- 100,000 moutons, veaux et chèvres.
- 6,000 tonnes de grains.
- 600 tonnes de noix de Galle.
- 4,650 tonnes de laine.
- 500 tonnes de gomme.
- 2,500 tonnes de dattes.
- 1,200 tonnes de réglisse.

La recette correspondante serait de £T. 110,000 par an.

Ce chiffre ne comprend d'ailleurs pas le transport des voyageurs autres que les pèlerins, le trafic d'importation des marchandises et le commerce local de station à station. Pour tenir compte de ces facteurs, Sir William Willcocks double le chiffre précédent et arrive à £T. 220,000 comme recettes brutes totales.

Mais ce résultat sera de beaucoup dépassé au bout de quelques années, même si on n'exécutait pas des travaux d'irrigation, et, à plus forte raison, dès que ceux-ci auront permis d'augmenter d'une manière considérable la puissance de production du pays en bétail, en céréales, et en coton.

Dans le procès-verbal de la discussion qui a eu lieu au Ministère des Travaux Publics sur ce rapport on fait remarquer que le prix kilométrique évalué par Sir William Willcocks, étant donné le caractère du pays à traverser, ne devrait pas être considéré comme faible, les chemins de fer établis dans les plaines de la Hongrie n'ayant pas coûté davantage.

Le Ministère approuve l'écartement normal (1.44 mètres), d'abord parce que la ligne de Homs à Tripoli est prévue à voie normale, de sorte que les marchandises pourraient être transportées de Bagdad à Tripoli ou *vice versa* sans transbordement, et en second lieu "si l'on construit la ligne projetée elle constituera pendant longtemps la seule ligne de Constantinople à Bagdad, par Konieh, Alep, et Homs. Il y aura également intérêt à éviter le transbordement des voyageurs à Homs. Si l'on veut que la malle des Indes suive ce trajet, il sera indispensable de réaliser une grande vitesse commerciale et de réduire par conséquent les arrêts au minimum. Rien n'empêcherait d'ailleurs de prévoir un embranchement reliant Damas à Palmyre. Cet embranchement, qui faciliterait le transport des pèlerins et qui se raccorderait à Damas avec la ligne du Hedjas, pourrait être construit à voie étroite sans inconvénient puisqu'un transbordement dans cette direction est en tous cas inévitable. Nous acceptons les chiffres donnés par Sir William Willcocks, à la suite de son enquête sur place au sujet du trafic, voyageurs (pèlerins) et marchandises."

Le procès-verbal termine : "Si des propositions répondant à ce programme étaient faites au Gouvernement par un groupe sérieux, nous estimons qu'il y aurait le plus grand intérêt pour le développement de la Mésopotamie et pour le succès des travaux d'irrigation projetés à les prendre en considération."

Le procès-verbal est signé :

HOULOSSI.
PICARD.
SERVICEN.
ZUHDI.
WILLCOCKS.

M. Willcocks n'est pas le seul et n'est pas le premier d'apprécier la valeur de ce projet. M. Charles Cotard, ancien ingénieur en chef de l'entreprise des travaux du Canal de Suez, en était un des plus ardents défenseurs. "Une œuvre aussi grande que celle du Canal de Suez," disait-il à Abdul-Hamid, "et qui sera pour l'Empire ottoman une source de prospérité inépuisable, est à réaliser dans la Mésopotamie, c'est de mettre en communication le Golfe Persique avec l'Europe au moyen d'une voie ferrée allant de Basrah par Bagdad à la vallée de l'Euphrate jusqu'à la rencontre des lignes venant de Constantinople et en même temps de rendre à la culture par un meilleur aménagement des eaux du Tigre et de l'Euphrate les immenses territoires qui traversent les deux fleuves. . . . Cette ligne formera alors la grande artère de communication entre l'Europe et l'Extrême-Orient. Sa position géographique exceptionnelle à travers cet isthme continental en fera en effet, comme cela s'est produit pour le Canal de Suez, la route obligée des voyageurs et des marchandises qui auront intérêt à prendre la voie la plus rapide. Le transit du Canal de Suez est d'environ 8 millions de tonnes et d'à peu près 200,000 passagers (statistique 1894) ; quelque réduite que soit la proportion qui en sera dérivée, elle suffira pour assurer à la voie ferrée un revenu considérable."

"La contrée traversée est une des plus peuplées et des plus fertiles de la Turquie," continue-t-il ; "le blé y donne jusqu'à deux et même trois récoltes par an ; les autres cultures, celles du riz et du coton, y donnent aussi des résultats surprenants. Le pays produit encore de la soie, des peaux, de la laine, du tabac, de l'orge, de la canne à sucre, du chanvre, du lin et des graines oléagineuses, des gommes, des oranges, des citrons, des légumes, des fruits de toutes sortes et nourrit plus de 4 millions de chevaux et de têtes de bétail. Il y a aussi des salines dont une seule fournit annuellement plus de 15,000 tonnes. Le pétrole et le bitume abondent dans le bassin central de l'Euphrate. Sur la section sud de Bagdad, et plus haut sur les deux rives de l'Euphrate, s'étendent des plantations de palmiers qui alimentent un commerce de dattes considérable ; plus d'un million de caisses, de coussins s'en expédient annuellement. . . ."

"D'immenses étendues de terrains marécageux peuvent être desséchées et assainies ; d'autres peuvent être arrosées—le tout moyennant une dépense qui a été évaluée à une trentaine de millions de francs avec une prévision de profits se chiffrant par des centaines de millions de francs."

Et voici comment le distingué ingénieur termine son rapport adressé à l'ex-Sultan :—

"Il y a là un élément de prospérité presque inépuisable d'où il sera possible de tirer toutes les ressources nécessaires pour rendre à cette partie de l'Empire ottoman, si merveilleusement placée entre la Méditerranée et le Golfe Persique, et dotée de tous les dons de la nature, sa splendeur des temps passés et en faire une des plus riches contrées du monde entier."

Voici, cher Monsieur, ce que j'ai pu puiser à la hâte dans mes documents pour vous aider à établir la valeur de la ligne et l'opinion qu'en a le Gouvernement turc. Pour la question de la garantie ainsi que pour celle de l'approbation du tracé par l'état-major, je me permets de vous référer aux négociations et aux conversations conservées dans la correspondance avec les Ministères des Travaux Publics et de la Guerre respectivement, dont vous possédez copie.

Bien sincèrement à vous,

BERNARD MAIMON.

Enclosure 8 in No. 63.

M. Tardieu to Mr. Barry.

Cher Mr. Barry,

26, Avenue de Messine, Paris, le 7 mai, 1910.

COMME M. Maimon a dû vous l'écrire, nous sommes dans une nouvelle période d'arrêt par suite d'objections de M. Bompard portant, non plus comme celles de M. Cambon, sur les modalités de notre projet, mais sur le principe même de l'affaire et pouvant se résumer ainsi. Les Turcs ne désirent pas qu'on construise le Homs-Bagdad. Cette ligne sera d'un rendement très médiocre et on n'obtiendra pas des Turcs une garantie.

M. Pichon, qui a quitté Paris jeudi pour une douzaine de jours, a prié M. Bompard de mettre ses objections par écrit, et il a, je crois, l'intention de se consulter de nouveau à leur sujet avec M. Paul Cambon.

De mon côté, je prépare un rapport que j'achève de rédiger et qui répond à ces critiques. Je vous en enverrai copie en même temps que je l'adresserai à M. Pichon.

Il me paraît utile que vous montriez cette copie au Foreign Office et que vous l'informiez de l'état actuel de la question. Il ne s'agit plus, en effet, de savoir quelle sera dans l'affaire la part de la France et de l'Angleterre, question sur laquelle les Anglais se croyaient tenus à une extrême réserve; il s'agit d'une opinion sur le fond même de l'affaire, sur sa valeur intrinsèque. Et, puisque les capitaux français et anglais doivent y être associés, il me paraît indispensable que le Foreign Office fasse savoir à M. Cambon s'il approuve le point de vue de M. Bompard ou si, au contraire, il est toujours d'accord avec nous.

Veuillez, &c.

ANDRÉ TARDIEU.

[16757]

No. 64.

Sir Edward Grey to Sir E. Goschen.

(No. 122. Secret.)

Sir,

Foreign Office, May 10, 1910.

COUNT METTERNICH, in the course of conversation to-day, told me that during his absence from London he had seen the German Chancellor, who had spoken to him about Persia.

The substance of what Herr von Bethmann-Hollweg had said was that the German Government would continue to be willing to respect the strategical and political interests of England and Russia in Persia. Also, in the economic sphere the German Government would recognise the English and Russian claim to a sort of favoured optional right with regard to railways, roads, and telegraphs in their respective spheres of interest. The German Government had no thought of interfering with the political interests of the two countries; but England and Russia ought to recognise that the economic concessions which Germany was prepared to make included the waiving of her right to most-favoured-nation treatment, which she has under her commercial treaty with Persia. In order to come to a friendly agreement with England and Russia, Germany was willing to give up her claim to most-favoured-nation treatment to the extent suggested. There had long been a sincere desire to come to a friendly agreement, and the German Government had, therefore, refrained from influencing the Persian Government, although at times the latter Government had probably wished that German influence should be exerted. Germany had manifested her desire for an understanding as long ago as in 1906, when she had made certain proposals to Russia. M. Isvolsky had now made a communication from which it appeared that an answer to these proposals would be sent soon. The German Chancellor had also expressed his desire for an agreement in his conversation with you on the 10th April last. Of course, there might be difficulties in the way of such an agreement. Germany might, for instance, have to mention at Tehran that her right to most-favoured-nation treatment had been impaired as a result of the diplomatic action of England and Russia. Germany would, however, do this very reluctantly, if only because of the effect upon German public opinion; and this difficulty would not arise if England and Russia would come to an understanding with Germany before obtaining the condition which they desired from Persia as to the granting of concessions. Count Metternich added that an agreement of this kind would very likely facilitate matters with regard to the Bagdad Railway.

I told him that I could not continue the discussion just at present. I explained to him, however, that what I had said to Herr von Kühlmann in his absence did not raise any difficulties of principle, though I had not gone into any details; and, therefore, although I was not at present prepared to continue the discussion, I had no wish to close it.

Count Metternich asked me whether I was drawing up any reply to the communication which the Chancellor had made to you.

I replied that I had already written to you to give you my private impressions before the recent events here had suspended business. You might, perhaps, make use of these in conversation with Herr von Bethmann-Hollweg, but as you would now be coming to London for the funeral, and would see me then, I thought you would probably wait until you had talked over the matter with me before you said anything further.

I am, &c.

E. GREY.

[16610]

No. 65.

Sir Edward Grey to Sir A. Nicolson.

(No. 221.)

(Telegraphic.) P.

Foreign Office, May 11, 1910.

THE following is for the confidential information of the Russian Minister for Foreign Affairs.

In reply to an enquiry made by the German chargé d'affaires on the 5th May as to my view of a discussion of an agreement with Germany respecting Persia in the light of the suggestions put forward by the German Chancellor, I said that his proposals on that point did not appear to me to offer much material for such an agreement, while I was discouraged by his attitude as to the Bagdad Railway. I had not yet had, nor did I expect to have for some time, an opportunity of discussing these proposals with the Prime Minister, to whom I had sent them.

Herr von Kühlmann pointed out that the questions of the Bagdad Railway and a naval agreement might take a long time to settle, and that it would therefore be well to make some progress with that of Persia first. Though Herr von Bethmann-Hollweg had no objection to recognising our special position in Persia he must satisfy public opinion in Germany by showing that he had obtained some *quid pro quo* before he could abandon the full treaty rights of Germany by declaring that recognition openly. The Persian question might become urgent by reason of the financial embarrassment of the Persian Government, and Great Britain and Russia might secure all concessions for railways in return for a loan, so that if Germany waited she might miss all opportunity of obtaining any concessions whatever. Herr von Bethmann-Hollweg's idea was that we might agree to the placing in Germany of the orders for 25 per cent. of the material for the railways we might build in Persia, in return for which Germany would recognise our special position and sphere in that country, and a similar arrangement would be made with Russia.

In reply to the difficulty which I pointed out, that if such a percentage were assigned to German industry, other countries would make similar requests, Herr von Kühlmann urged that Germany was in a special position owing to her rights in the Bagdad Railway.

Great Britain and Germany might, he suggested, reserve 55 per cent. for themselves in each case, and leave the other countries to fight for the remaining 45 per cent.

I answered that I could only promise to bear in mind the fact that Germany wished to come to an agreement with us on the Persian question.

[16649]

No. 66.

Sir Edward Grey to Sir A. Nicolson.

(No. 222.)

(Telegraphic.) P.

Foreign Office, May 11, 1910.

PLEASE inform Russian Minister for Foreign Affairs that on the 6th May German chargé d'affaires read to Sir C. Hardinge a telegram from the German Secretary of State for Foreign Affairs to the effect that according to information which had reached the German Government, Great Britain and Russia had demanded an assurance from the Persian Government that without the consent of the two Powers they would not give to foreign companies strategic or political concessions such as mines, telegraphs, railways, and roads. The Russian Minister at Tehran had also expressed the opinion that in Persia all concessions must be political. The German Government accordingly instructed Herr von Kühlmann that the principle of the open door, and the prospect of any negotiations for an agreement respecting Persian affairs such as had been outlined by the German Chancellor would be rendered illusory by a declaration of this kind made by the Persian Government. The German Government further considered that the opportunity to obtain concessions in Persia had been offered to German firms, but that these projects had not been officially encouraged out of deference to the interests in that country of Great Britain and Russia.

In reply, Sir C. Hardinge told Herr von Kühlmann that we had asked the Persian Government to give assurances that, without previously consulting the two Powers, they would not grant strategic or political concessions, such as those for telegraphs, roads, and railways. These assurances, for which we were pressing, had been demanded long before any proposals about Persia had reached us from Herr von

[1723]

Bethmann-Hollweg. We were a limitrophe Power, and as such our political and strategic interests in these matters were undeniable: we were only asking that they should not be ignored. We were not demanding any monopoly in Persia, but only an option, and our attitude did not appear to clash with Herr von Kühlmann's proposals of the 5th May.

The chargé d'affaires, while intimating that the situation would, in his opinion, be greatly altered by a limitation of concessions in respect of which the assurances were demanded to those for telegraphs, roads, and railways, asked whether it would not be possible to await the conclusion of an agreement with Germany before calling on the Persian Government to give them.

He was informed that the question had already gone too far, but that negotiations on the lines proposed by Herr von Bethmann-Hollweg need not be hindered by pressure on the Persian Government. The omission of any reference to a possible settlement of the Bagdad Railway question was the chief objection to those negotiations, and just as Germany had urged the railway as a reason for taking an interest in Persian affairs, so Great Britain would adduce her position in Persia as justifying her interest in the railway.

Herr von Kühlmann said that it was impossible for Germany to give assurances about the railway without placing herself in a disadvantageous position in her negotiations with Great Britain, and Sir C. Hardinge pointed out that she must of necessity find herself in such a position as regards both Great Britain and Russia, owing to the special situation occupied by those two Powers in Persia.

[17017]

No. 67.

Sir F. Cartwright to Sir Edward Grey.—(Received May 13.)

(No. 24.)

(Telegraphic.) P.

Vienna, May 13, 1910.

I HAVE received a visit from the editor of the newspaper which takes its views from the Ministry for Foreign Affairs here. He came to warn me that the Persian question was seriously viewed by that Ministry, and told me (on information which Count Aehrenthal has no doubt received from Germany) that the German Ambassador in London had had interviews with both you and Sir Charles Hardinge, the latter of which had been even more unsatisfactory than the former. It is clear that Germany is magnifying the crisis and creating considerable alarm here in order to gain the support of Austria-Hungary. Statements are being made here by the German Ambassador to the effect that a crisis more dangerous than the Bosnian or Morocco one will be caused by the Persian question unless a more conciliatory attitude is adopted by Great Britain and Russia. I learn that a memorandum on Persia is being prepared for Count Aehrenthal's information by the Foreign Office here, though a few days ago he told me that he took but small interest in Persian affairs, about which he knew very little. If a serious crisis arrives Count Aehrenthal will, I gather, be compelled to support Germany, though from what I can ascertain he is reluctant to be dragged into the dispute regarding Persian affairs. The impression of the French Ambassador, who had a conversation with Count Aehrenthal, is that the latter would be glad to moderate the attitude of Germany, if he could see his way to use his influence at Berlin with that object. M. Crozier was somewhat alarmed, when I saw him last night, at Germany's action here.

I should be glad to be furnished with your views on these matters before I pay my farewell visit to Count Aehrenthal on leaving for London. I shall see his Excellency to-morrow morning.

[15938]

No. 68.

Sir Edward Grey to Sir G. Louther.

(No. 103.)

(Telegraphic.) P.

Foreign Office, May 13, 1910.

BAGDAD Railway.

I have received your despatch No. 276 of the 3rd instant, and have to observe that German Government consider paragraph 2 of Additional Convention of the 20th February, 1908, to mean that the surpluses of the debt have been assigned

to the line in general—an interpretation which is quite untenable. The paragraph in question clearly refers to the preceding paragraph, respecting the decision to continue the line to El Halif only, and therefore the surpluses can only be assigned to the prolongation as far as that point.

The Turkish Government had therefore every reason to delay their assent to the proposal of the railway company, and might have been expected to do so in view of the well-known wishes of His Majesty's Government on the subject.

In pointing this out to Rifaat Pasha you should impress on him that there is nothing to prevent the Turkish Government from constructing other lines to the Persian Gulf and for giving concessions for such lines, and that it is therefore immaterial whether or not the German Government voluntarily abandon, without compensation, the right to build their line from Bagdad to the Gulf, which as a matter of fact there is not the slightest ground for hoping that they will do.

If his Excellency imagines that we are urging him to approach the German Government he has entirely misunderstood our proposals.

[17017]

No. 69.

Sir Edward Grey to Sir F. Cartwright.

(No. 23.)

(Telegraphic.) P.

Foreign Office, May 13, 1910.

GERMANY and Persia.

Following is summary of recent negotiations, as requested in your telegram No. 24 of this morning:—

I suggested to the German chargé d'affaires on the 31st March that, although it was out of the question that England and Germany should come to a general agreement which made no reference to a mutual reduction of armaments, yet it was still possible that some arrangement could be concluded between Germany, Russia, and Great Britain (as well as France, about whom there would be no difficulty), which might include the Bagdad Railway and questions connected with Persia.

I assured Herr von Kühlmann, with regard to Persia, that we did not in the least desire to create a commercial monopoly, but that, owing to our peculiar position, it was essential for us to guard against the grant to others by a weak Government of concessions of political or strategic importance, and to keep a very close watch over our own political and strategic interests in that quarter. This friendly communication elicited a few days afterwards a verbal and written statement that Germany would not negotiate as to the Bagdad Railway at all, except as part of a general understanding, but that they might admit British participation in the Bagdad Gulf section if, firstly, an *entente* were arranged on all matters general and political, and, secondly, if we consented to share with Germany any concession which might be granted to us by the Persian Government. If we agreed to this Germany was ready to recognise the special interests of Great Britain in the British sphere of Persia. (It is to be remarked that this assurance was not extended to the neutral sphere.) As I was unable to discuss this last proposal with Mr. Asquith before he went abroad, I have not as yet replied formally to it.

On the 5th May, however, Herr von Kühlmann conveyed to me an intimation that it would be a good thing if some progress were made at once with the question of the agreement about Persia, and on the 6th May Sir C. Hardinge saw Herr von Kühlmann (see my telegrams Nos. 221 and 222 of the 11th May to St. Petersburg). On the 10th May I had an interview with Count Metternich. His Excellency said that if Great Britain and Russia would make an agreement with Germany prior to obtaining from the Persian Government the condition that the latter will not grant to other Powers concessions of strategic or political importance (which is what we are at present urging Persian Government to grant), Germany would, in return, recognise the claims of the two Powers to a sort of favoured optional right in their respective spheres with regard to roads, railroads, and telegraphs. You will notice that his Excellency's proposal is a considerably less advantageous one than that put forward by Herr von Kühlmann. His Excellency threw out a hint that if an agreement on these lines were concluded a settlement of the Bagdad Railway question would be facilitated, but he gave no undertaking that such an agreement would include a solution of that question.

To this I answered that, though I by no means wished to close the discussion, I could not in present circumstances continue it immediately.

[17129]

No. 70.

M. Isvolsky to Count Benckendorff.—(Communicated to Foreign Office, May 14.)

(Confidentiel.)
(Télégraphique.)

Saint-Petersbourg, le 11 mai, 1910.

LE Comte de Pourtalès m'a communiqué, hier, ce qui suit: Le chargé d'affaires d'Allemagne à Londres a eu un entretien avec Sir E. Grey au sujet de la démarche faite auprès du Gouvernement du Schah par les Représentants de Russie et de Grande-Bretagne à Téhéran concernant la question des concessions. Sir E. Grey dit que les deux Ministres avaient en effet exigé du Cabinet de Téhéran la promesse de ne pas livrer de concessions sans leur consentement, mais qu'aucune pression n'a été exercée sur le Gouvernement persan à ce sujet. Il a fait observer ensuite qu'il n'était question que de concessions d'un caractère politique ou stratégique, telles que la construction de chemins de fer, de routes, et de télégraphes, et que l'Angleterre et la Russie n'ont pas en vue de créer par rapport à ces concessions un monopole en leur faveur, réclamant seulement un droit d'option. Une pareille demande ne constitue aucune infraction au principe de la porte ouverte et ne peut empêcher la conclusion d'un accord amical entre l'Angleterre et l'Allemagne. Sir E. Grey a ajouté, à titre d'opinion personnelle, qu'il sera probablement possible d'assurer aux capitaux allemands une certaine participation dans les concessions en question. Après ce qui précède le Comte de Pourtalès a ajouté que, par égard aux intérêts spéciaux politiques et stratégiques des deux Puissances en Perse, l'Allemagne est toujours prête à reconnaître leur droit de réclamer dans leurs sphères d'influence respectives un droit d'option en matière de chemins de fer, de routes, et de télégraphes. Mais en faisant une pareille concession, l'Allemagne ne désisterait du droit de la nation la plus favorisée dont elle jouit en vertu de son traité avec la Perse. Le Gouvernement allemand est prêt à renoncer à ce droit dans les limites susindiquées, mais à condition de conclure avec les deux Puissances un accord amical à ce sujet. La conclusion d'une entente de ce genre serait cependant rendue très difficile si l'Allemagne se voyait forcée de protester à Téhéran contre une violation de ses droits de nation la plus favorisée. Cette difficulté pourrait être écartée si la Russie et l'Angleterre consentaient à ne plus insister sur la déclaration du Gouvernement persan au sujet des concessions sans qu'un arrangement amical avec l'Allemagne soit conclu. M. de Pourtalès ajouta qu'un accord par rapport aux affaires persanes pourrait aussi contribuer à faciliter une entente dans la question du Chemin de Fer de Bagdad.

J'ai répondu à l'Ambassadeur dans le même sens que Sir E. Grey, en ajoutant que nous n'avions nullement l'intention d'empiéter sur le principe de la porte ouverte, ou de barrer le chemin à l'activité commerciale et industrielle de l'Allemagne en Perse, et que nous réclamions seulement le droit aux concessions de caractère politique indiqué par Sir E. Grey, auquel nous ajoutons pourtant la concession très importante pour nous de la navigation sur le Lac d'Ourmiah. J'ai dit ensuite que la démarche faite à Téhéran par les deux représentants avait été provoquée par le fait que certains Ministres persans s'étaient déjà mis en relations avec des groupes financiers en vue de conclure un emprunt couvert par des concessions de diverses natures. Notre démarche—nullement dirigée contre l'Allemagne—avait seulement pour but de servir d'avertissement aux Ministres persans et de prévenir des complications fâcheuses. J'ajoutai que nous sommes prêts à reprendre des pourparlers avec le Gouvernement allemand pour arriver avec lui à un arrangement amical qui satisferait dans une juste mesure les intérêts des deux partis.

[17313]

No. 71.

Sir G. Louther to Sir Edward Grey.—(Received May 16.)

(No. 90.)

(Telegraphic.) P.

Constantinople, May 16, 1910.

BAGDAD RAILWAY.

Referring to your telegram No. 103, the Grand Vizier maintains in reply to the argument contained in the first paragraph thereof, which I again repeated to him to-day, that, when read together, the original and additional convention of 1908 entail an obligation to find the necessary guarantees for continuing the line to the gulf. He, however, prefers to await the result of your conversations with Rifaat Pasha before discussing the question here, or replying to your despatch No. 96, Secret. He added,

however, that if the Germans persisted in maintaining their rights of continuation to the gulf, pressure could be put on them by the Turkish Government by stating that they could not find the guarantees. He trusted, however, that the Germans would listen to reason and waive their rights over the gulf section.

[17338]

No. 72.

Sir G. Louther to Sir Edward Grey.—(Received May 17.)

(No. 280.)

Sir,

Constantinople, May 6, 1910.

WITH reference to my despatch No. 222 of the 13th April, I have the honour to forward herewith a despatch from His Majesty's vice-consul at Adana reporting on the further progress of work in connection with the Bagdad Railway.

I have, &c.

GERARD LOWTHER.

Enclosure in No. 72.

Vice-Consul Rawlins to Consul-General Eyres.

(No. 5.)

Sir,

Adana, April 27, 1910.

I HAVE the honour to forward herewith details of the exact work that is now going on between Adana and Missis in connection with the construction of the Bagdad Railway. The work begins about 4 miles out from Adana, and is all in the direction of Missis.

Bizdighian Chiftlik (about 4 miles out from Adana).—Already 1 kilom. of earthwork has been thrown up, and the contractor is busily at work on another 3 kilom.; 150 men are employed on this section.

Injirli.—No work is going on here, but a site for a station has been marked out and stones placed to mark the foundations.

Zibki.—The contractor here has 3 kilom. to do, and there are 120 men at work.

Hadji Ali Effendi Chiftlik.—The contractor has 5 kilom., and 120 men are at work. A bridge is also being built here, and "cuttings" in the sides of the hills are being made.

Adji Deré.—The contractor has 3 kilom., and 80 men are at work.

A bridge is being built, or rather the foundations for one have already been made. Here, as in the previous places mentioned, light rails have been laid down for conveying rubble, &c.

Missis.—The contractor has 5 kilom., and 150 men are at work.

A site for a station has been marked out, and a stone house for the workmen, &c., has been built on that site.

The telegraph line which I had the honour to state in my despatch No. 3 of the 24th April had been made from Eregli to Adana for the Bagdad Company's private use is now being continued towards Missis. Wire and posts have been put up as far as Injirli, and the posts alone stretch as far as Hadji Ali Effendi Chiftlik, the work being continued daily.

I have, &c.

E. C. DONALDSON RAWLINS.

[17353]

No. 73.

Sir G. Louther to Sir Edward Grey.—(Received May 17.)

(No. 297.)

Sir,

Constantinople, May 11, 1910.

I HAVE the honour to forward herewith a despatch from Mr. Rawlins, His Majesty's vice-consul at Adana, reporting the official opening of work on the Bagdad Railway.

I have, &c.

GERARD LOWTHER.

[1723]

Enclosure in No. 73.

Vice-Consul Rawlins to Consul-General Eyles.

(No. 9.)

Sir,

Adana, May 2, 1910.

I HAVE the honour to report that yesterday, the 1st May, the oft-delayed official opening of the work upon the Bagdad Railway took place here in the presence of the vali, members of the consular corps, and all the important officials and well-known personages of this district. The spot chosen for the ceremony was near the station of Chakir Pasha on the Mersina-Tarsus-Adana Railway, about twenty minutes distance from the town.

As I have had the honour to explain in previous reports, the Bagdad Railway will join the Mersina-Tarsus-Adana line at Yenidje, and will then run parallel with it to a point just beyond the station of Chakir Pasha, whence it will branch off and, running through the vineyards at the back of the town, come out on the open expanse of "scrub" land which lies near the dyke and the banks of the Seihun River. Here will be the main Adana station of the Bagdad line. The invitations to yesterday's ceremony, which took place at the point where the Bagdad line is to branch off from the Mersina-Adana line, were sent out in German from the offices of the company, and signed by Mr. Winkler, the head engineer, who has just returned from Aleppo. Mr. Winkler was himself not able to be present at the opening, owing to illness, and a M. von Brem took charge of affairs.

A large marquee had been erected, decorated with German and Ottoman flags, and near by was a kind of platform, similarly decorated, where the speeches were to be held. A battalion of infantry was drawn up with music and colours, and a "general salute" was rendered on the arrival of the vali. The first speech was delivered in French by M. von Brem, who spoke about the inestimable benefits which the railway would confer on all the subjects of the Ottoman Empire, and further stated that he and all those in his "company" were proud and happy in being instrumental in bringing such a happy state of affairs to pass. M. von Brem further stated that the day would come when one would be able to travel from Bagdad to Constantinople in forty-eight hours by rail. The vali also made a long speech in Turkish, in which he expressed his warmest thanks to the Bagdad Company for the benefits to Turkey and all Ottomans which would accrue from the building of the Bagdad Railway. The speech was frequently applauded, and his Excellency's references to the Bagdad Company were always couched in the warmest language. After this speech, prayers were offered up by the Mufti, and some sheep were slain as a "kourban" or sacrifice. The vali then cut up some turf with a gilded pickaxe, and with a gilded shovel shovelled the earth into a wheelbarrow; this was the signal for an outburst of cheering, the soldiers presented arms and the military band played. Afterwards a reception was held in the marquee, and the band played the German National Anthem. Although work on this section has now been officially commenced, it is by no means certain in which direction operations will now continue, nor does it seem that actual work from Adana towards Ereğli is to be immediately undertaken. It is hard to say whether the native population was much impressed by yesterday's ceremony, but it can be said that, although there was a great crowd, there did not seem to be much enthusiasm.

I have, &c.

E. C. DONALDSON RAWLINS.

[17367]

No. 74.

Sir E. Goschen to Sir Edward Grey.—(Received May 17.)

(No. 139. Confidential.)

Sir,

Berlin, May 13, 1910.

I HAVE the honour to inform you that the Imperial Chancellor asked me to call upon him yesterday evening, unfortunately before the arrival of the messenger. His Excellency told me that, as he supposed that I should shortly be going to London, he was anxious that I should be in a position to explain to you his views with regard to the present phase of the Persian question. As, in obedience to the King's commands, I am to have the honour of being present at the funeral of our late Sovereign, I hope, by an early arrival in London, to have an opportunity of laying those views before you.

Shortly, they are to the following effect: That the Imperial Government are sincerely desirous not to find themselves forced to complicate matters by having to make representations to the Persian Government with regard to the most-favoured-nation treatment which they enjoy under their treaty with Persia. Such representations will, however, his Excellency says, inevitably have to be made should the Persian Government give the assurances now being pressed for by the Governments of Great Britain and Russia before an understanding is arrived at between Germany and the two Governments. It was for this reason that he had been so anxious that the present British and Russian action should be stopped, or at all events delayed. I said to his Excellency that I was sure he would readily understand that having taken that action in hand it would never do for the two Governments now to withdraw from the position they had taken up. His Excellency said that he fully recognised the difficulty of doing so, but in view of the reasons he had given to me, and in order to prevent a step which would make a subsequent understanding in Persian, or, indeed, any other, affairs a thousand times more difficult, if not impossible, he hoped that His Majesty's Government would see their way to immediate negotiations for an understanding on Persian affairs on the lines which had been indicated to them, so that the understanding could be published simultaneously with, if not before, the assurances which were now being pressed for from the Persian Government.

Otherwise he would, to his great regret, be forced by public opinion to take the step of recalling to the Persian Government their treaty obligations to Germany. He begged me to impress upon you most strongly that this was a step which he was sincerely anxious to avoid.

The Chancellor spoke with great emphasis, and seemed really perturbed at the idea that he might be obliged by circumstances to take a step which would endanger his policy of friendliness towards Great Britain and throw fresh obstacles in the way of a general political understanding between the two countries. I propose to reserve his Excellency's remarks on this head until my arrival in London.

As an indication of the interest which is beginning to be felt in Germany with regard to the commercial and economic development of Persia, I may mention that the "Kölnische Zeitung" of the 11th May publishes a telegram from its Tehran correspondent stating that the representative of the Deutsche Bank is about to leave for Berlin, after having passed several weeks in Tehran for the purpose of studying economic conditions in Persia.

The correspondent announces that it is being generally rumoured that a decision is now imminent with regard to the participation of German capital in Persia. He adds that in political circles in that country great hopes are being built on the outcome of these negotiations, and that the expectation is entertained that Germany's participation in the commercial opening up of Persia will contribute largely towards extricating her from her present financial embarrassments.

The message concludes with the words: "It is urgently desirable that Germany should not fail to make use of this opportunity to get a footing here and to secure herself for the future a valuable market."

I have, &c.

W. E. GOSCHEN.

[17622]

No. 75.

Sir F. Cartwright to Sir Edward Grey.—(Received May 17.)

(No. 68.)

Sir,

Vienna, May 14, 1910.

I HAVE the honour to report that I saw Count Aehrenthal to-day, and that in the course of the conversation I had with him I alluded to the Persian question. Count Aehrenthal assumed the attitude that the Persian question interested him but very little; he said that he was watching it merely as an outsider; he was entirely impartial with regard to it—he was neutral. I said to him that the German Government did not appear to view the matter as calmly as his Excellency did, and as Germany was the ally of Austria-Hungary, it seemed to me that the Persian question, if allowed to remain unsolved, was likely to affect the Dual Monarchy very considerably. Count Aehrenthal replied that the Persian question only really interested him if it should unfortunately be transferred from being a local question in distant Asia to being a European question of the first magnitude. He hoped that it would never acquire such dimensions, and he expressed his confidence that the diplomatic wisdom of Great

Britain, Russia, and Germany combined would find a solution for what, after all, appeared to him to be a matter of secondary importance. I said to his Excellency that Germany seemed to me to be somewhat too exacting in her demands for a settlement of the Persian question. Count Aehrenthal observed that Germany was merely looking after her own interests, and that every nation tried to get as big a slice of the pudding as she possibly could. He seemed to imply that the whole Persian question was merely one of give and take, and that eventually both sides would have the common sense to moderate their aspirations. His Excellency did not think that any sane person wished to bring about a conflict for the sake of Persia, and certainly Austria-Hungary did not desire to see such a conflict arise, as her own interests in Persia were quite insignificant. Count Aehrenthal's advice was that Great Britain and Germany should meet each other half way and come to a settlement of their respective interests in Persia in an amicable manner, opening thereby the way to a reconciliation between them all along the line. I said to Count Aehrenthal that the interests of Great Britain and Russia in Persia were quite peculiar, and differed from those of other nations. We both were great Asiatic Powers, and Persia lay between our respective territories, and we could not be indifferent as to the foreign political influences which might be developed in the near future in that country. We did not desire to exclude other nations from having legitimate trade with Persia; we were for the "open door" in the true sense of that word, but we and Russia were especially opposed to the granting of concessions of political importance to third parties without our being consulted in the matter. That we sincerely desired to maintain the independence and the integrity of Persia was clear enough, for it was by our efforts that Persia had been saved from breaking up owing to the misgovernment of her rulers. If we had wanted to deal a blow at the integrity of Persia we could have done so over and over again; that we had not done so must be put down to our credit, and other nations must bear this fact in mind, and not assume that because Persia was technically independent they were at liberty to misuse her rights of independence merely to create difficulties for the two Powers which had supreme interests in that part of the world. I pointed out to Count Aehrenthal that if Russia were suddenly to bring pressure to bear at Constantinople to obtain from the Porte concessions for the construction of purely political railways in Albania, or to obtain a concession to create a commercial port on the Albanian coast—which might afterwards serve as a Russian naval base—both Italy and the Dual Monarchy, with Germany at their back, would use all their diplomatic thunder at Constantinople to protest against such concessions being granted to a Power which had no legitimate interests in Albania to look after. Count Aehrenthal replied that he certainly would object if Russia began to show too great an interest in Albania, but, as regards Persia, he stated that he could understand that Germany, with her ever-increasing population, could not allow distant markets to be closed to her without making an effort to keep them open. His Excellency talked a good deal about the sovereign rights of independent States, but he did this in a rather languid manner as if he did not know what arguments to use in defence of Germany's recent action in Persia. At this point Count Aehrenthal made an observation which is worth recording: On my repeating to him that the freedom of commerce of all nations would run no real risks of being interfered with if the Persian Government gave Great Britain and Russia the guarantees asked for by these two Powers with regard to the granting of concessions, Count Aehrenthal confessed to me that he would be perfectly satisfied if an assurance to this effect were given to him by Great Britain, but that he would not feel the same confidence if such an assurance were given to him by Russia. He declared that if no railways were to be built in Northern Persia except with the consent of Russia, it meant that Russia would allow none to be constructed but such as would connect with railway lines in the Caucasus; in other words, Russia could, and would, throttle any foreign trade which passed through that province on its way to Persia; that was where Austro-Hungarian interests were touched, for her trade could only reach Persia through the Caucasus, where its passage was already impeded by every kind of restriction. For this reason, Count Aehrenthal said, Austria-Hungary sympathised with Germany's action with regard to Persia; nevertheless, he gave me to understand that he would deeply regret if the Persian question were to cause the renewal of bad blood between Great Britain and Germany. He admitted that, of course, Great Britain and Russia had one simple way of settling the Persian question, and that was to walk in and to divide Persia, or at least to deprive her of her absolute independence. However, if we acted in this way and rode rough-shod over German interests and sentiment, we would produce, said Count Aehrenthal, a most deplorable situation in Europe which, he hoped, the wisdom and the common sense of the rulers and the statesmen of Great Britain, Russia, and

Germany would spare us from. His Excellency concluded by saying that all the Great Powers were sincerely animated by the desire of maintaining the peace of the world, and that he felt confident that this peace could be secured by the opposing parties examining the matters in dispute in a spirit of moderation and common sense.

I have, &c.

FAIRFAX L. CARTWRIGHT.

[17792]

No. 76.

Sir Edward Grey to Sir A. Nicolson.

(No. 244.)

(Telegraphic.) P.

Foreign Office, May 17, 1910.

GERMANY and Persia.

In conversation with Count Metternich I detailed promises of Persian Government in reply to our note of the 7th April as to new loans, and added that we should not fail to keep them to these promises.

I also told German Ambassador, with regard to the question of concessions, that we were considering our reply to a request from Persian Government for an explanation of our demands, and made it clear to his Excellency that the least demand we could make was that foreigners should not receive concessions for harbours, means of communication, and the like, without the opportunity being given us of safeguarding our political and strategic interests, and of seeing that they were not prejudiced by such concessions. These demands, I said, did not seem to me to give adequate cause for a protest from Germany at Tehran, and, in referring to Count Metternich's words on the subject of a protest at Tehran, I said that, were Persian Government to grant to a third party a concession which was prejudicial to our political or strategic interests, and thus confront us with a *fait accompli*, we should not confine ourselves to a strong protest at Tehran, but should safeguard our interests by whatever measures we thought necessary in Persia itself.

I took the opportunity of remarking to his Excellency that the question was not an urgent one as he represented it to be, and that it would not become so until either Germany obtained a concession prejudicial to our interests or we took some step which might lead to Germany's exclusion.

In conclusion, I said that, unless the Bagdad Railway question were included in an agreement about Persia, I could not entertain the idea of such an arrangement.

Beyond remarking that there were signs that German negotiations at St. Petersburg were likely to progress favourably, Count Metternich made no further communication.

[16626]

No. 77.

Mr. Mallet to Mr. A. J. Barry.

Dear Mr. Barry,

Foreign Office, May 17, 1910.

I HAVE received your letter of the 10th May, relative to the objections to the Homs-Bagdad Railway scheme said to have been raised by the French Ambassador at Constantinople in conversation with the French Minister for Foreign Affairs.

As regards the objections numbered (1), (2), and (3) in your letter, we have no reason to suppose that the information in the possession of M. Bompard is inaccurate, though we have ourselves no recent information which confirms it.

We regard the project as a French one, and accordingly prefer to take no official action regarding it pending the receipt of an official intimation of the views of the French Government on the subject, and, at any rate, until this is received no instructions to take action can be sent to Sir G. Lowther.

I am, &c.

LOUIS MALLET.

[1723]

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[17812]

Sir A. Nicolson to Sir Edward Grey.—(Received May 18.)

(No. 153.)

(Telegraphic.) P.

St. Petersburg, May 18, 1910.

INTERVENTION of Germany in Persian affairs.

I saw M. Isvolsky to-day, and read to him your telegram No. 244 of the 17th May. He took notes of your remarks to Count Metternich, in order that, in any conversations which he may have with the German Ambassador here, he may conform his language to yours.

He said that he considered your language to Count Metternich clear, firm, and moderate.

[18026]

Report of Interview of Sir E. Goschen with the Chancellor on May 12.—(Received at Foreign Office, May 21, 1910.)

THE Chancellor said that, as he presumed I was going to London for the King's funeral, he would like to say a few words to me on the subject of Persian affairs, in order that I might be in a position to place his views before Sir Edward Grey.

He said that he was much perturbed by the step England and Russia were taking at Tehran. The assurances they were demanding from the Persian Government would, when made, practically do away with the open door and render Germany's treaty right to most-favoured-nation treatment a dead letter. The German press would at once be up in arms, and attribute Germany's loss of this right and the "closing of the door" to weakness on the part of the Chancellor. He would therefore be forced to anticipate these attacks and to make representations to the Persian Government recalling to them the fact that they were bound by treaty to give Germany most-favoured-nation treatment, and pointing out that Germany could not renounce that right. This step would, as a matter of fact, be repugnant to him, as it would inevitably cause a disagreeable impression both upon His Majesty's Government and British public opinion, and render the chances of Great Britain and Germany coming to an agreement on Persian or any other matters more remote than ever. He would view such a state of things with the greatest regret, as a good understanding with England was the corner-stone of his policy. He begged me to impress this view of the question upon Sir Edward Grey, and beg him to do all in his power to avoid creating a situation of which the effect would most certainly be that which he had indicated and which he was most sincerely anxious to avoid.

I told him I was sure he would readily understand that it would, for obvious reasons, be impossible for us to recede from the position which we had taken up at this late hour. His Excellency said he was obliged to admit that, though somewhat regretfully, but he did hope that Sir Edward Grey would see his way to coming to terms with the German Government as soon as possible with regard to some arrangement which would show that the door was not to be closed, and that German trade and capital were not to be excluded from Persia altogether—some arrangement, in fact, which he could produce to show that German interests had not been lost sight of. After some further conversation, during which he reiterated his willingness to give every assurance that the Imperial Government had no political aims, and only desired that German economic and commercial interests should receive due consideration, I observed that it was a pity that the Imperial Government had not seen its way to go a little further towards falling in with our views with regard to the Bagdad Railway. His Excellency observed that he was quite ready to do so, but that he must, as he had already told me, have a general understanding first. On that point he could not understand our attitude—did not we want an understanding? I said that certainly we wished to be the best possible friends with Germany; but that in the understanding he had originally proposed there were many points of difficulty. In the first place, a naval arrangement which would satisfy public opinion in England was a *sine quâ non*. His Excellency said, very excitedly, that he had given His Majesty's Government to understand that he was quite ready to discuss a naval arrangement and had suggested a basis, but that His Majesty's Government had shown no inclination to discuss it, and had let the question drop out of sight. I said that there had been very good reasons why at the close of last year the discussion had had to be temporarily dropped; but

that in the meantime I had often told him that any naval arrangement on the basis of the full carrying out of their naval programme would hardly satisfy the British taxpayer, to whom it would mean having to find the money for fifty or sixty "Dreadnoughts" by 1917. He said: "It is your fault. Why did you begin to build 'Dreadnoughts'?" I replied that the form and size of the ships our naval authorities thought necessary for the maintenance of our naval efficiency was, to my mind, beside the question; the fact remained that we did build them, and that Germany built them likewise, and in accordance with a programme which made us incur vast expenditure to maintain the naval standard which, as an island Power with a vast oversea Empire, we regarded as necessary for our safety. "Besides," I added, "to your Excellency's question I might fairly retaliate with the question why Germany had refused the overtures which had from time to time been made to them by His Majesty's Government for the limitation of armaments." The Chancellor replied, very testily, that that had been before his time, and he had nothing to do with it. The Chancellor went on to say, with reference to my remark about the full carrying out of the programme, that as time went on there might even be a change in that respect. I said that that contingency had been hinted to me more than once, but only as a contingency, and not as an assurance which could be taken into account in negotiations. In the meantime we had to go by what had been declared officially in the Reichstag, namely, that the programme would, and must, be carried out in its entirety. The Chancellor reminded me that he had suggested that the rate of shipbuilding could be restricted and spread over more years. I agreed that that was something, but maintained that that would not affect the ultimate expenditure. Finally, after this short conversation which was degenerating into a wrangle, his Excellency gave very cordial assurances of his desire to come to an understanding with us of some sort, but added that the most pressing question was that of Persia, and for the reasons he had given me.

Subsequently I saw Herr von Schoen for a few moments, who also spoke very seriously, but very pleasantly, on the importance to both Germany and England of things not being brought to a point where the Imperial Government would be forced to step in. "We must come to an arrangement," he said, "and remember that what we really require is not political influence of any sort, but merely, to save our face *vis-à-vis* of our public opinion."

I asked him what would suffice. I had heard that Herr von Kühlmann had suggested a percentage of the material required for any concessions we might obtain and work. He made at first as if he had not heard of this suggestion, but finally said that it was far too concrete a proposal, and, moreover, would be likely to create difficulties with other Powers; something much vaguer would suffice so long as it made it clear that German trade and capital were not to be excluded from Persia.

I hear that the Deutsche Bank agent opened negotiations about the establishment of a German bank (for which, I believe, a concession was granted some years ago), and was successful as far as the Persian Government were concerned; but that he was told from Berlin to drop the matter for the present as the concession, if officially given, might cause complications. He is therefore coming home practically empty-handed.

[17808]

Sir Edward Grey to Count de Salis.

(No. 133. Secret.)

Sir,

Foreign Office, May 21, 1910.

I HAVE to inform you that the German Ambassador called on the 13th instant, and made a statement to Sir C. Hardinge on much the same lines as that which he made to me on the 10th instant, respecting concessions in Persia (see my despatch No. 122, Secret, of that day to Sir E. Goschen). He added that, according to information which the German Government had received, the Persian Government had partly acceded to the demands of the British and Russian Governments, and the German Government feared that, in the event of pressure being applied by the two Governments, Germany would find herself face to face with a *fait accompli*, and would be compelled to resort to a protest against a breach of most-favoured-nation treatment by the Persians. He said that I had appeared favourably disposed to the idea of negotiations, and he pressed Sir C. Hardinge for a reply as to whether His Majesty's Government intended to negotiate an agreement with Germany, or to exert pressure on the Persian Government to obtain a declaration in the sense which they desired.

Sir C. Hardinge told his Excellency that the information which he had received

from Tehran was, as far as he knew, inexact. His Excellency had seen me a few days before, and I had then told him that I would speak to Sir E. Goschen when he came here for the funeral. In the meantime nothing further had been said to the Persians, the last communication being dated five or six weeks ago, and His Majesty's Government were not pressing the Persian Government at this moment.

I am, &c.
E. GREY.

[18147]

No. 81.

Sir G. Lowther to Sir Edward Grey.—(Received May 23.)

(No. 314.)

Sir,

Pera, May 16, 1910.

I SAW the Grand Vizier to-day, and I repeated to him the argument which I had previously urged both with his Highness and with Rifaat Pasha, to the effect that there did not appear to be in the "Convention additionnelle" of the 20th February, 1903, any legal obligation for the Ottoman Government to furnish revenues for the kilometric guarantees now for the prolongation of the line as far as Bagdad and the Gulf.

His Highness replied that he preferred postponing a discussion of the question, as he had furnished Rifaat Pasha with full instructions to talk over the matter with you in London, but he observed that, taking the original convention together with the "Convention additionnelle" of 1908, the obligation did exist for the Government to furnish the required sums as guarantees. He wished to avoid any contentious discussion with His Majesty's Government on the matter, and he felt certain that an arrangement could be come to by which the Germans would voluntarily abandon the claim to build the Gulf section, and intimated that, if necessary, the Ottoman Government could always have recourse to the pretext that no funds were available for the section beyond El Halif. This view appeared to be somewhat of a contradiction of his Highness's previous statement, but as he showed such disinclination to discuss the matter in detail before Rifaat Pasha had spoken with you I thought it better not to pursue the matter further.

I do not think that his Highness had at all understood that His Majesty's Government wished to urge him to approach the German Government, but it not unnaturally appeared to him to be the best means of meeting the wishes of His Majesty's Government as regards the Gulf section.

I asked his Excellency whether any definite decision had been taken with regard to the *tracé* of the line now in course of construction, which I knew was expected about this time, and his Highness replied that the decision had been adverse to the line going by Alexandretta and in favour of adhering to the old *tracé* by Tel-Habesh. Aleppo will thus not be on the main line, but on a branch.

I have, &c.
GERARD LOWTHER.

[18149]

No. 82.

Sir G. Lowther to Sir Edward Grey.—(Received May 23.)

(No. 316.)

Sir,

Pera, May 17, 1910.

WITH reference to my despatches Nos. 270 and 280 of the 3rd and 6th instant respectively, I have the honour to forward to you herewith some notes on the actual state of the work on the Bagdad Railway which have been made by Mr. Mounsey, who was recently travelling in the district between Konia and Adana.

I have, &c.
GERARD LOWTHER.

Enclosure in No. 82.

Notes on Journey from Eregli to Adana.

THE line is completed to Boulgourlou, but open only to Eregli; from Boulgourlou on to Bozanti there are engineers and undertakers camping along the whole route.

Some Italian engineers stated that the way was levelled on from Boulgourlou to Ouloukishla, all easy country, but no rails are laid, and they added that the original *tracé* for the portion from the latter place to Bozanti, which covers the mountainous portion, has had to be slightly revised; the inspection was going on, the new *tracé* would be ready in two months—must then be sent to Frankfort for approval, and work could not begin until end of June or July. The whole section to Adana is calculated by officials and optimists to require three years for completion, by the undertakers, &c., on the spot, five years. Meanwhile men are at work building small stone houses at the spots chosen for stations along this section, where there is practically no accommodation at present.

At Adana, where many undertakers and job-men were collected, there was no work doing, but quantities of rails and rolling stock are being accumulated there. The company's private telegraph line had just been completed to Adana from Eregli, and was being carried on to Hamidieh and Osmanieh.

It is perhaps worthy of note that since the Adana-Mersina line has come into German hands (70 per cent. of the shares being now under German control) the English stationmaster at Adana has been dismissed, and two Maltese employes on the line, while among all the foreign undertakers, Swiss, Belgian, or Italian, to whom the Bagdad line is being let out in small contracts of from 5 to 10 kilom. each, there is not a single British one.

Some way out from Adana, towards Aleppo, the railway route is levelled towards Missis, and the rails laid for a few kilometres, but beyond Hamidieh no work is going on.

Meissner Pasha, the head engineer for the section from Aleppo onwards, was expected to arrive there the 1st May, and it was understood that he would start on work of building bridges and other preliminary work at once.

May 16, 1910.

[18846]

No. 83.

Translation of Letter from Dr. von Gwinner to Sir E. Cassel.—(Communicated by Sir H. Babington Smith, May 26.)

(Translation.)

(After personal expressions.)

Berlin, May 21, 1910.

CONCERNING our Bagdad negotiations, you have not been quite accurately informed, and the expressions of the German Government have not been quite rightly understood.

It is obvious that the German Government will not consider English concurrence in the 4 per cent. increase of the Turkish customs as an equivalent for my resigning to you the control of the section from Bagdad to the Persian Gulf. You know that we can build the Bagdad Railway without the increase of the customs duties. It is Turkey who has the principal interest in the customs increase, not Germany. Moreover, you demanded 50 per cent. of the capital for the last section, while Hilmi and Djavid had told me expressly, as I repeated to you, that we must not go beyond 50 per cent.; Hilmi, meanwhile, has fallen, and Djavid, at least for the moment, has got into a fright. The concurrence of the Young Turk Government would also not be obtainable at the present time for the arrangement discussed between us, as Hilmi would have had it. But that is not Germany's fault.

With united forces we should be able gradually to bring the Turks round to our view; if we oppose each other, neither will get much more than he already has; but we are, in this case, not only the compliant and friendly party, but also the *beati possidentes*. The German Government has obviously no interest in seeing merely the proclamation of an English victory. In the sense in which we discussed it, a friendly co-operation ought of course to be announced simultaneously, and, consequently, there should be a reciprocal granting of minor participations in the irrigation business and similar matters. It is obvious that Germany cannot concur in an English monopoly of the navigation of the Euphrates and Tigris. If, however, without a monopoly, you wish to set up half-a-dozen English navigation companies for the development of Mesopotamia, I shall be delighted. Finally, it can hardly be expected that one should come to an understanding in an affair while one finds oneself exposed to the danger of being opposed and maligned on that very point and everywhere else.

For the rest, I take note that you formally resume your liberty. Practically this

[1723]

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makes very little difference in the facts. That the National Bank of Turkey is jointly interested in, and co-operate with the endeavours of Mr. Ornstein and his associates was stated by Sir H. Babington Smith himself to Baron von Marschall.

Accordingly I say, with Shakespeare—

"Fight valiantly,
But eat and drink as friends."

In this spirit I greet you, as yours always obediently,

(Unsigned.)

[19042]

No. 84.

Count de Salis to Sir Edward Grey.—(Received May 30.)

(No. 151.)

Sir,

Berlin, May 24, 1910.

BARON VON SCHOEN told me this evening that he was sending instructions to Count Metternich not to approach you further for the present on the subject of Persia. The German Government felt that it was not the moment to do so, while in view of the recent explanations given to them on the subject the question had lost much of its acute character. There had been a misunderstanding about it. He had, as I was no doubt aware, seen M. Isvolsky, and had spoken to him about the manner in which, as they considered, German rights were being menaced. M. Isvolsky had retorted by accusing them of coming into Persia with offers of loans and demands for concessions to the detriment of the position and interests which Russia had acquired in that country. He had of course rejoined that this was not the case. Though they were not bound by any agreement or obligation to do so, they had expressly refrained from countenancing any proceedings of the kind. He would give his word of honour to that effect. The misunderstanding had thus been cleared up.

Moreover, the German Government had now learnt that the two Powers were proposing to the Powers an "exchange of views" with the Persians before the grant of concessions which might injure British or Russian political interests. This was quite different from the original idea that the "permission" of the two Powers was to be required before any concessions were examined. The German Government had been very sensitive on this point, but the first-mentioned formula seemed to be in accordance more or less with a private suggestion he had made for the two Powers to act discreetly ("agir discrètement"), but not to make a parade of anything ("de rien afficher"). Meanwhile, no actual difficulty in practice had arisen, but, as I must know, their press was extremely susceptible and ready to raise an outcry that German interests were in danger. I remarked on this that it was to be noted that some organs, by no means backward in the defence of German rights, had sounded a distinct note of moderation. Baron von Schoen replied that this was the case; they had been accused in some quarters of trying to make a second Morocco affair out of the business. This was the last thing in the world they wished to do.

Baron von Schoen spoke at some length, more than once repeating himself, especially in insisting that there had been a misunderstanding ("malentendu"). But I think that the foregoing is an accurate summary of the purport of his remarks. The impression left on me from the very first was that of a carefully prepared, if not very convincing explanation of a change of front with regard to the recent attitude of the German Government relating to Persia. As regards the causes which may have contributed to dictate this action, I can only venture so far to suggest one or two ideas. M. Jules Cambon, in the course of conversation, seemed to be struck with the idea that the Emperor's visit to London and his reception there by the King and by the public had rendered His Majesty more desirous of avoiding causes of friction. Perhaps the lukewarm attitude of Austria might furnish a more plausible explanation—a view which receives some confirmation from the information respecting Count Aehrenthal's ideas which you were good enough to communicate to me on the 21st instant. A further article by Count Reventlow in the "Tageszeitung" urges that it must be borne in mind that, should Russia be hard pressed as regards her legitimate aspirations in Northern Persia, she must in self-defence end by declaring some sort of protectorate. Germany could not prevent her from doing so, though she would of course find that the change would be by no means to her advantage. A story reached me privately that this consideration has been urged upon the German Government by Count Aehrenthal himself, who was not, however, the author of the suggestion, which was supposed to form part of what a pan-German newspaper recently called "English

intrigues via Vienna." In any case, there have been, as I have ventured to report before, marked traces of a disinclination on the part of the non-inspired press to see matters develop into a "second Morocco affair."

On the other hand, it is evident that anything like a promise from the British Government to guarantee participation in the supply of railway material would be hailed by more than one section of the German press as an important diplomatic triumph, and would increase the prestige of the Chancellor in quarters where such a result would at the present moment be welcome to him. The National Liberal party, which represent to a great extent the manufacturers who would directly benefit by any such arrangement, are just at the present moment in a fairly strong position in Prussia. The fate of the Electoral Reform Law introduced by the Government is in their hands, for unless a certain number of them can be induced to support the very Conservative form which has been given to this measure, it must inevitably be lost, and the struggle on the subject must be recommenced afresh next session in the less favourable conditions which would arise from the discredit of failure. It may be further remarked that the Centre party, at present not on the most cordial terms with Herr von Bethmann-Hollweg, who is in some need of their good-will, derives some of its influence in Westphalia from the iron industry. After the recent trouble with the Mannesmanns and their supporters, the Imperial Foreign Office may be expected to be doubly anxious to avoid an accusation of indifference to German commercial interests. In all the circumstances, therefore, it would seem possible that, although they have interrupted discussions with His Majesty's Government for the moment, the German Government may be quite ready to return to the subject later if the moment is found to be favourable, and especially if the progress of separate negotiations with Russia should encourage them to do so.

I have, &c.

J. DE SALIS.

[19706]

No. 85.

Sir Edward Grey to Sir E. Goschen.

(No. 148.) Secret.

Sir,

Foreign Office, May 31, 1910.

COUNT METTERNICH came to inform me to-day that he was going to Berlin for some days, and after some general conversation he asked me whether I had anything to say to him before he went upon the subjects which had recently been under discussion between ourselves and Germany.

I replied that I had nothing new to tell him about Persia. Within the last ten days we had made at Tehran the communication which, as I had previously told him, contained the least that we could say. I repeated the substance of it, and added that as we had not asked for a reply pledging the Persian Government to give us any monopoly, the communication was not open to the objection which the German Government had apprehended.

Count Metternich said that his Government had received the same information from M. Isvolsky; but, in order to prevent any misunderstanding arising from the reports which they received from the German Minister at Tehran, who got what information he could, Count Metternich would like to be quite sure of the dates. He understood that about a month ago we had made a written communication asking for a reply, and he seemed in doubt as to whether I was now referring to a written or a verbal communication.

I informed him that the first communication was a written one on the 7th April. The Persian Government had replied satisfactorily to that on the two financial points, but had asked for an explanation of what exactly we meant with regard to concessions. We had now, within the last ten days, given this explanation in a written communication which required no reply.

Count Metternich then said that he understood I had told you my views on the subjects of your conversations with the German Chancellor, and he asked whether I had written to you.

I answered that I had not given you any written communication to make, but I had told you in a letter what my views were. As Count Metternich was anxious to know them, I said that I had told you how impossible it would be for me to make an arrangement about Persian railways unless an arrangement with regard to the Bagdad Railway were included.

Count Metternich argued that the *quid pro quo* for a share in Persian railways would be the renunciation by Germany of her right to apply for railway concessions in the part of Persia in which we were interested. He could not see why the Bagdad Railway should be brought into the discussion, or why we should expect participation in it without giving some *quid pro quo*.

I observed that financial assistance and the 4 per cent. increase of the Turkish customs dues would be a *quid pro quo*. I also reminded Count Metternich that on the occasion of the German Emperor's visit it had not seemed unreasonable to the Germans, in the conversations which then took place, that we should have participation in the southern end of the Bagdad Railway, "a gate" as the Emperor had called it, without any talk of a *quid pro quo* other than financial assistance. Even the 4 per cent. increase of the Turkish customs, which was directly or indirectly to provide money for the Bagdad Railway, was not mooted then.

Count Metternich said that he would like me to know what the attitude of the late Conservative Government had been with regard to the Bagdad Railway, as they were certainly not less Imperialist than the present Government. Lord Lansdowne had expressed himself favourable, in the interests of general commercial development and civilisation, to the making of the Bagdad Railway by Germany. All he had stipulated was that an arrangement should be made with Great Britain when a port was actually selected on the Persian Gulf, as it would prejudice our interests if a fortified harbour were constructed there. No mention had been made of British control of the line from Bagdad to the Gulf, a most valuable part of the railway. Since the Emperor's visit two years ago more political feeling had been aroused about the railway, and this had made things more difficult.

I told Count Metternich that, early this year, Herr Gwinner and Sir Ernest Cassel had been in negotiation, and I had thought that the financiers would probably be able to come to some arrangement; but progress had been blocked by political considerations.

Count Metternich did not dispute this, but rejoined that it was over here that the question had been made a political one.

I observed that what I meant was that the negotiations between the financiers had been blocked by political considerations in Germany.

Count Metternich explained that he meant that the political feeling in Germany had been aroused by the political considerations which had been urged here.

I am, &c.

E. GREY.

[18846]

No. 86.

Sir Edward Grey to Sir H. Babington Smith.

(Confidential).

Dear Sir Henry Babington Smith,

Foreign Office, May 31, 1910.

IN order to avoid all ambiguity, I think it may be as well that I should put on paper my views with regard to British participation in the Bagdad Railway, in the light of Dr. Gwinner's letter of the 21st May to Sir E. Cassel.

I see no objection to your negotiating with Herr Gwinner on the basis of that letter; but I think that the British share should be 55 per cent., and that we should construct the harbour at Koweit and have a large share in its subsequent control.

We should decidedly prefer that the "Indian" system should be substituted for the existing arrangement of kilometric guarantees; we believe that the Turkish Government could hardly object to such a modification, but if they definitely express a preference for the 1903 arrangement we should, though reluctantly, agree to it. You are, however, fully aware of the drawback of the existing arrangement for the working expenses guarantee, viz., that it militates against the development of traffic, and for this reason it should, if possible, be modified.

It would be well for you to make sure that any proposals put forward by Herr Gwinner have the approval of the German Government, and you must clearly understand that we can approve no agreement definitely without consultation with the French and Russian Governments.

I am, &c.

E. GREY.

[20070]

No. 87.

Mr. O'Beirne to Sir Edward Grey.—(Received June 6.)

(No. 255. Confidential.)

Sir,

St. Petersburg, May 30, 1910.

IN a conversation which I had to-day with the Minister for Foreign Affairs he referred to the negotiations which would presently take place between Russia and Germany regarding Persia and the Bagdad Railway. He observed that he had along kept His Majesty's Government fully informed of Germany's proposals to enter into these negotiations. It was perfectly obvious that Germany's intention in negotiating in the way which she had adopted, with each of the two Powers separately, was to bring about a division between them. He had been considering what procedure we ought to follow in order to render such a result impossible, what was the most suitable machinery ("mécanisme") to set up for our negotiations; but he had not yet been able to come to any distinct conclusion on the subject.

I said, having in mind your telegram No. 156 of the 1st April to Sir A. Nicolson, that I understood it to be your opinion that since Germany would not negotiate *à quatre*, we could attain practically the same result by negotiating separately and keeping one another fully acquainted with the course of our respective negotiations. I supposed that when Germany had put forward any concrete proposals we could concert between ourselves as to the line of action to be taken in regard to them.

M. Isvolsky remarked that it went without saying that he would keep His Majesty's Government informed of his negotiations, but he was not sure that this was enough to meet the requirements of the case, more especially as regards the Bagdad Railway. It seemed to him that a moment would come in the negotiations when it would be necessary to "make reserves," safeguarding, as I understood him to mean, the interests of the other Powers concerned.

I thanked his Excellency for what he had said to me, and I said that I would transmit his suggestion to you, and that you would doubtless let him have your views upon it.

I have, &c.

HUGH O'BEIRNE.

[20075]

No. 88.

Mr. O'Beirne to Sir Edward Grey.—(Received June 6.)

(No. 261.)

Sir,

St. Petersburg, June 2, 1910.

WITH reference to my despatch No. 255, Confidential, of the 30th ultimo, I have the honour to state that the Minister for Foreign Affairs to-day again spoke to me regarding the method to be adopted in conducting negotiations with Germany regarding Persia. His Excellency now stated that he had been thinking of the advisability of informing Germany that the two Powers would not negotiate about Persia otherwise than jointly. He thought that any kind of procedure by which we kept in touch with one another while negotiating separately would be excessively complicated and less certain in its results than the course which he now suggested. He remarked that he was not certain whether His Majesty's Government wished for such negotiations *à trois*. I said His Majesty's Government would certainly prefer such negotiations, the only question was whether, if Germany absolutely declined to negotiate in this way, it would be well for the two Powers to insist, with the result that there would be no negotiations at all.

I also took the opportunity of reminding his Excellency of what you had said to the German chargé d'affaires on the 1st April regarding separate negotiations on the Bagdad Railway question, as recorded in your telegram No. 156, of which a paraphrase was communicated to his Excellency by Sir A. Nicolson. Although the statement made by you as to the possibility of separate negotiations regarding the Bagdad Railway would not make it impossible to refuse separate negotiations regarding Persia, it occurs to me that the two questions are so closely connected that it might be difficult to treat them differently.

M. Isvolsky stated that he thought there would be no harm in making an intimation to Germany in the sense indicated. If she declined joint negotiations we could then consider how to proceed. We should at any rate have shown the German Government

[1723]

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that the two Powers were not to be separated. In conclusion his Excellency said that he would draw up a form of communication to the German Government which he would submit to you.

I have, &c.
HUGH O'BEIRNE.

[18636]

No. 89.

Sir Edvard Grey to Sir G. Louthier.

(No. 155.)
Sir,

Foreign Office, June 6, 1910.

ON the 19th May the Ottoman Minister for Foreign Affairs called upon me and had a long conversation with Sir C. Hardinge and myself in regard to the Bagdad Railway.

Rifaat Pasha introduced the subject by referring to the instructions contained in my despatch No. 107 of the 20th April; and I explained to his Excellency that it would be impossible for His Majesty's Government to agree to the proposed increase of the Turkish customs duties from 11 per cent. to 15 per cent., and that I should even be reproached if I were to consent to the prolongation of the existing 3 per cent. increase after 1914, if Turkish revenues were to be pledged for the construction of the Bagdad Railway, the increases in the customs duties being thus used, either directly or indirectly, to create a monopoly which would destroy that part of British trade which had so long been established in Mesopotamia.

His Excellency pointed out the difficulty which Turkey would have in granting a concession for any railway which would become a rival of part of the Bagdad Railway, and so make heavier the burden of kilometric guarantees to which Turkey was pledged in connection with that railway: the greater the competition which the Bagdad Railway had to meet, the greater the burden would be.

Finally, Rifaat Pasha suggested that Turkey might induce Germany to give up the Bagdad-Gulf sections of the concession, and let Turkey make that part of the line herself, and he enquired whether such a solution would satisfy His Majesty's Government.

I replied that it would be a necessary condition that if Turkey in making the railway employed foreign capital or material, a proportion of, say, 60 per cent. should be British; also, if a foreign contractor were employed, he should be British. Sir C. Hardinge and I expressed doubts as to whether Germany would be willing to agree to an arrangement of this sort, but Rifaat Pasha seemed hopeful, and was anxious to try.

We explained to his Excellency that we had thought it very unfortunate that Turkish revenues should have been pledged for four sections of the Bagdad Railway just before the end of the old régime; but we had not made this a fatal objection to an increase of the customs, because the new régime could not be held responsible for it; now, however, when the new régime was endeavouring to find revenues, and to pledge them for four additional sections, the situation with regard to the 4 per cent. increase of the customs duties would become intolerable, unless some arrangement satisfactory to His Majesty's Government and British interests could be made.

I have to instruct your Excellency to press the Ottoman Minister for Foreign Affairs for a written reply to my despatch of the 20th April, setting forth his reasons for being unable to grant a concession for a railway along the Tigris Valley, and what his counter-suggestion is, as stated in conversation with me already.

I may add, for your Excellency's information, that Rifaat Pasha had an interview with Mr. Mallet on the 23rd May, when his Excellency said that the Ottoman Government were not prepared to "froisser" the Germans by giving a concession to a British company—an argument which is not very convincing—and that if such a concession were granted the German Government on their part would certainly refuse their consent to the proposed 4 per cent. customs increase. Furthermore, his Excellency contended that if they gave a concession to a British company in return for British assent to the 4 per cent. increase, they would likewise have to give a concession in return for French consent, but that the Ottoman Government did not intend to give a concession for the Homs-Bagdad Railway, which the French Government desired, since such a line would compete with the Bagdad Railway, and the burden of the

financial guarantee which was an obligation upon the Ottoman Government in respect of the latter undertaking would be of longer duration in consequence of such competition.

I am, &c.
E. GREY.

[20916]

No. 90.

Sir E. Goschen to Sir Edvard Grey.—(Received June 13.)

(No. 167.)
Sir,

Berlin, June 10, 1910.

I HAVE the honour to transmit herewith the Annual Report for 1909 of the Bagdad Railway Company.

I have, &c.
W. E. GOSCHEN.

Enclosure in No. 90.

Annual Report for 1909 of the Bagdad Railway Company.

Membres du Conseil d'Administration au 31 décembre, 1909.

- A. von Gwinner, Directeur de la Deutsche Bank, Membre de la Chambre des Seigneurs de Prusse, Président, Berlin.
- Ministre Ch. Testa, Délégué des Porteurs allemands au Conseil d'Administration de la Dette publique ottomane, Vice-Président, Constantinople.
- J. Deffès, Directeur général de la Banque Impériale ottomane, Vice-Président, Constantinople.
- Abegg-Arter, Président de la Société de Crédit suisse, Zurich.
- Comte G. d'Arnoux, Paris.
- Gaston Auboyneau, Administrateur de la Banque Impériale ottomane, Paris.
- Joseph Azarian, Banquier, Constantinople.
- Otto Braunsfels, Conseiller intime de Commerce, associé de la maison Jacob S. H. Stern, Francfort-sur-le-Mein.
- Carlo Esterle, Administrateur-Délégué de la Società generale italiana Edison di Eletticità, Milan.
- E. Eugenidi, Banquier, Constantinople.
- Son Excellence Hamdy Bey, Délégué des Porteurs ottomans au Conseil d'Administration de la Dette publique ottomane, Constantinople.
- Dr. K. Helfferich, Conseiller intime, Directeur de la Deutsche Bank, Berlin.
- Son Excellence Hoene Effendi, Sous-Secrétaire d'Etat à l'Administration des Postes et Télégraphes de l'Empire ottoman, Constantinople.
- E. Huguenin, Directeur général de la Société du Chemin de Fer ottoman d'Anatolie, Administrateur-Délégué, Constantinople.
- A. von Kaulla, Administrateur de la Württembergische Vereinsbank, Stuttgart.
- F. Kautz, Directeur-Général-Adjoint de la Société du Chemin de Fer ottoman d'Anatolie, Constantinople.
- O. von Kühlmann, Administrateur de la Bayerische Vereinsbank, Munich.
- Pyrame Naville, Administrateur de la Banque Impériale ottomane, Paris.
- Baron de Neufville, Régent de la Banque de France, Administrateur de la Banque Impériale ottomane, Paris.
- Son Excellence Pangiri Bey, ancien Directeur de la Banque Impériale ottomane, Constantinople.
- L. Pissard, Directeur général de la Dette publique ottomane, Constantinople.
- Sallandrouze de Lamornaix, Vice-Président du Conseil d'Administration de la Société du Chemin de Fer Jonction Salonique-Constantinople, Constantinople.
- K. Schrader, Directeur de Chemin de Fer e. d., Membre du Reichstag allemand, Administrateur de la Deutsche Bank, Berlin.
- Dr P. von Schwabach, Consul général, associé de la maison S. Bleichröder, Berlin.

K. Stögmayer, Vice-Président du Conseil d'Administration du Wiener Bank-Verein, Vienne.
A. Turretini, Directeur général de la Banque de Paris et des Pays-Bas, Paris.
C. Weise, Conseiller de Commerce, associé de la maison Ihmsen et Cie., Constantinople.

Rapport du Conseil d'Administration sur le septième Exercice (1^{er} janvier jusqu'au 31 décembre, 1909).

Messieurs,

NOUS avons l'honneur, en exécution de l'article 31 des statuts, de vous convoquer en assemblée générale ordinaire, pour soumettre à votre approbation, les comptes de l'exercice qui a pris fin le 31 décembre, 1909.

I. Réseau exploité.

La longueur du réseau en exploitation est de 200 kilom.

II. Recettes brutes.

Les recettes brutes se sont élevées à £ T. 17,043 15 prs., ou à 387,344 fr. 27 c. (le franc compté à raison de 4'40 piastres or), et se répartissent comme suit :—

	£ T.	Fr.
Voyageurs	10,110.17	= 229,776.61
Bagages et chiens	181.74	= 4,130.48
Marchandises et bestiaux	6,751.24	= 153,437.18

La recette kilométrique de l'exercice ascende ainsi à 1,936 fr. 72 c., dont :

	Fr.
Pour voyageurs	1,157.78
„ bagages et chiens	20.65
„ marchandises et bestiaux	758.29

III. Trafic.

Il a été transporté 57,026 voyageurs, contre 52,759 en 1908, d'où une augmentation de 4,267 voyageurs.

Le trafic direct accuse une diminution de 3,331 voyageurs, provenant des transports militaires, lesquels étaient inférieurs de 4,209, de sorte que la circulation des particuliers présente une augmentation de 878 voyageurs.

Les transports de marchandises se sont élevés à 15,364 tonnes, contre 15,941 tonnes en 1908, d'où une diminution de 577 tonnes.

Les trains ont parcouru 146,874 kilom.

Le parcours des voitures et wagons représente 2,277,488 essieux kilométriques.

IV. Garantie kilométrique.

Le Gouvernement Impérial avait à nous payer, pour parfaire le chiffre de la garantie forfaitaire kilométrique, 509,565 fr. 45 c., montant, qui nous a été intégralement versé par l'Administration de la Dette publique ottomane.

V. Matériel roulant.

Notre parc a été augmenté de—

3 voitures à 2 essieux, 1 ^{re} et 2 ^e classe.
3 „ à 2 essieux, 3 ^e classe.
4 fourgons à 2 essieux.
50 wagons à marchandises couverts.
20 „ à marchandises à hauts bords.
4 wagons pour bois longs.
10 wagons à ballast.
1 grue roulante.

VI. Renseignements généraux.

Les plans du prolongement de la ligne de Boulgourlou (terminus actuel) jusqu'à Alep, que nous avons soumis au Ministère des Travaux Publics en avril 1909, ont été approuvés.

Après avoir franchi les montagnes du Taurus, la ligne de Bagdad devait longer parallèlement la voie actuelle du Chemin de Fer Mersine-Adana, sur une longueur de 25 kilom. environ.

Le Gouvernement voulant éviter cette double voie parallèle, nous avons conclu avec lui un arrangement aux termes duquel notre ligne sera reliée à celle de Mersine-Adana, à la station de Yénidjé, qui deviendra ainsi gare commune pour les deux réseaux.

De là, jusqu'à un point situé un peu en deçà de la gare actuelle d'Adana, nos trains utiliseront donc la voie du Chemin de Fer de Mersine, laquelle sera renforcée et améliorée. Les négociations à ce sujet n'ont abouti qu'en 1910.

L'exécution des 840 kilom. de ligne prévus dans la convention conclue l'année dernière avec le Gouvernement ottoman, a été confiée à une société de construction constituée à cet effet, le 1^{er} décembre, 1909, à Glaris, sous la dénomination de "Société pour la Construction de Chemins de Fer en Turquie," et dont le capital est fourni par des souscripteurs allemands, français, italiens, autrichiens, et suisses.

Le capital de cette société de construction est de 10,000,000 de francs, dont 50 pour cent versés.

Le distingué directeur des travaux de construction de la première section du Chemin de Fer de Bagdad, M. le Conseiller intime Mackensen, a été, à notre grand regret, enlevé par une mort prématurée, peu après l'achèvement des études de la ligne Boulgourlou-Alep, qu'il avait dirigées avec tant de compétence.

En ce qui concerne la réalisation des emprunts d'État ottomans, destinés à couvrir les dépenses de construction, les conventions y relatives ont été passées avec un syndicat international, à la tête duquel se trouve la Deutsche Bank.

VII. Partie financière.

(a.) Sur l'avance de £ T. 300,000 consentie au Gouvernement ottoman à la date du 6 janvier, 1908, dont le remboursement est garanti par la part du Gouvernement dans les excédents des revenus concédés à la Dette publique ottomane, il nous a été versé, le 2 avril, 1910, c'est-à-dire, après la clôture de l'année financière turque, qui prend fin le 13 mars, une somme de £ T. 117,346 34 prs.

(b.) L'avance de £ T. 150,000 du 13 avril, 1908, a été intégralement remboursée dans le cours de l'exercice 1909.

(c.) En présence du développement favorable que présentent les revenus concédés à la Dette publique ottomane, il y a lieu d'espérer que le remboursement de l'avance de £ T. 300,000, du 16 juin, 1908, lequel—ainsi qu'il est dit dans notre dernier rapport—n'était prévu que pour l'année 1912-13, pourra avoir lieu avant cette date.

Par déference pour le Gouvernement et sur la demande de celui-ci, le taux d'intérêt des trois avances précitées a été réduit, à partir du 13 octobre, 1909, de 7 pour cent à 6 pour cent l'an.

La composition du Conseil d'Administration a subi, au cours de l'exercice 1909, les modifications suivantes :—

M. le Conseiller intime Dr. K. Zander a résigné ses fonctions d'administrateur en janvier 1909.

En son lieu et place le conseil a nommé, dans sa séance du 30 janvier, 1909, M. F. Kautz, directeur-général-adjoint de la Société du Chemin de Fer ottoman d'Anatolie, nomination qui a été ratifiée par l'assemblée générale du 25 juin, 1909.

Dans la même assemblée générale M. Sallandrouze de Lamornaix a été appelé à occuper le siège d'administrateur resté vacant par suite du décès de M. le Commandant Léon Berger, survenu à la date du 3 janvier, 1909.

Le bilan au 31 décembre, 1909, avec ses annexes expose en détail la situation de notre société à la fin du septième exercice.

Le compte Profits et Pertes accuse un bénéfice net de 1,161,065 fr. 33 c. (y compris le report de l'exercice 1908), dont nous proposons l'emploi suivant :—

	Fr.
Bénéfice suivant bilan	1,161,065.33
Moins report de l'exercice 1908	194,266.46
	966,798.87
Prélèvement en faveur du "Fonds de Prévoyance pour Maintenir le Dividende à 5 pour cent"	500,000.00
	466,798.87
10 pour cent au Fonds de Réserve statutaire	46,679.89
	420,118.98
5 pour cent intérêts sur le capital-actions versé	375,000.00
	45,118.98
Plus report de l'exercice 1908	194,266.46
Solde à reporter à nouveau	239,585.44

Pour le Conseil d'Administration de la Société Impériale ottomane du Chemin de Fer de Bagdad,

Le Président,
ARTHUR von GWINNER.
L'Administrateur-Délégué,
ED. HUGUENIN.

Berlin et Constantinople, mai 1910.

Annexe (A).

BILAN au 31 décembre, 1909.

Actif.	Fr.*	£ T.	Capital-actions— 15,000,000 de francs divisé en 30,000 actions de 500 fr. chacune	Fr.*	£ T.
Capital-actions (versements non appelés), 50 pour cent de nom. 15,000,000 de francs	7,500,000.00	350,000.00	Subvention reçue par le Gouvern- ment Impérial ottoman en obligations 4 pour cent de l'emprunt Bagdad pour la 1 ^{re} section	54,000,000.00	2,360,358.00
Premier établissement	49,590,620.08	2,186,387.28	Moins 711 obligations amorties	355,500.00	
Matériel roulant	3,223,767.33	141,843.76	Fonds de Réserve—		
Inventaire	153,820.36	6,768.10	Réserve statutaire	10,590.24	
Cautionnement	699,728.51	30,788.06	Fonds de prévoyance pour maintenir le dividende à 5 pour cent	57,209.00	
Débiteurs—			Réserve spéciale	162,626.69	
Avances aux banques	79,120.96		Réserve pour pertes de change	2,834.88	
Avances au Gouvernement ottoman (y compris intérêts au 31 décem- bre, 1909)	559,568.16		Crediteurs		
Garantie du Gouvernement ottoman pour 1909	22,420.88		Bénéfice net pour 1909		
			Total		
Total	76,293,163.55	3,356,899.20			

* Les livres de la société sont tenus exclusivement en livres turques ; les chiffres en francs n'y sont ajoutés que pour l'éclaircissement des comptes.

Constantinople, avril 1910.

L'Administrateur-Délégué,
ED. HUGUENIN.

This extension is at present being continued in three directions—from Adana eastwards to Amanus; from Adana westwards to the Taurus Mountains; and from Bulgurlu eastwards to the Taurus Mountains.

I have, &c.

FAIRFAX L. CARTWRIGHT.

[22856]

No. 92.

Sir G. Lowther to Sir Edward Grey.—(Received June 27.)

(No. 389. Confidential.)

Sir,

Therapia, June 17, 1910.

WITH reference to my despatch No. 144 of the 8th March last, I have the honour to report that Mr. A. J. Barry called here two days ago in order to place the embassy in possession of the latest information regarding the Homs-Bagdad Railway negotiations. Mr. Barry had in his pocket a private note from the Foreign Office informing him that the scheme had grounded on the opposition of the Germans; and his agent here, Mr. Maimon, had also gathered from the Turkish side that, though ready to grant the concession, they could not do so in face of Germany's objections.

Mr. Barry had therefore come to the conclusion that the Anglo-French group, whose interests he and M. Tardieu represent, must set to work to overcome this opposition and endeavour to arrive at a compromise with the German company. M. Huguenin was sounded indirectly, and seemed not averse to coming to some arrangement; his objections to the Bagdad-Homs scheme were that it would compete with the Bagdad line, would take away from its traffic and business, and would unfavourably affect its revenues; it was therefore disadvantageous to the Turks. It must also be remembered that the Bagdad Railway Company in calculating their kilometric guarantees on the line had taken an average of the general expenditure over the whole line, irrespective of the fact that certain portions were far more costly to construct than others. Thus, the portion which the Germans are busy working on now, from Eregli to Adana, contained some 19 miles of tunnelling which was the most difficult and expensive work on the whole line; they could not give up to England the level stretch from the Gulf to Bagdad, and concede to France a rival line from Bagdad to the Levant without requiring some compensation on their own account. Some such compromise as the following might, however, be found acceptable: Germany to continue their section on which she is now engaged, as far as El Halib or Deir; the French group to build the portion between Bagdad and Deir with a line of their own on to Homs, to join the Damascus-Homs line (or possibly the Germans to construct the Deir-Bagdad portion, and give the Anglo-French group running rights over it to Bagdad); and the English to buy over the Bagdad-Gulf end from the German company.

M. Huguenin has meanwhile gone to Switzerland on leave, and it is expected that he may go and meet M. Tardieu in Paris and discuss this project; he would endeavour to obtain Mr. Gwynner's assent, and if anything came of the negotiations the proposals made would be submitted to the various Governments for approval. Mr. Barry has to go to Russia on business now, but his group would be represented in any serious negotiations that might take place at Paris by the Earl of Ronaldshay.

If such a compromise as he proposes were come to, Mr. Barry would have the Anglo-French part of the line run on the Indian or Chinese guarantee system, which he states works out at $4\frac{1}{2}$ per cent. instead of $7\frac{1}{2}$ per cent., which he makes out the present German figure to be; from the Turkish point of view it would, therefore, be advantageous financially; moreover, it would shorten the whole length of the proposed line, and the railway would be placed under the Turkish general supervision with maintenance of Turkey's sovereign rights. He was to have seen the Minister of Finance yesterday and hear his views as to the proposals, which he understands are favourable, but he has not informed me of the result of the interview. In any case, it was only of a purely tentative nature, as he cannot move in the matter without consulting M. Tardieu.

I have, &c.

GERARD LOWTHER.

[22859]

No. 93.

Sir G. Lowther to Sir Edward Grey.—(Received June 27.)

(No. 392.)

Sir,

Therapia, June 20, 1910.

IN obedience to the instructions contained in your despatch No. 155, Secret, of the 6th instant in regard to the Bagdad Railway, I to-day told Rifaat Pasha that you were expecting a reply to your despatch of the 20th April, translation of which I had read to him and left with him on the 3rd May last.

I added that I had understood from the conversation I then had with him and the Grand Vizier that he would have some more satisfactory reply to give you than that given to me on that occasion, as he had undertaken to discuss the matter with the Grand Vizier and lay certain proposals before you. His Excellency, however, merely repeated what he had said to you, as recorded in your despatch No. 155, Secret, of the 6th instant, and added that as Baron Marschall had left on leave of absence he had had no opportunity of speaking to him, and he did not know whether the chargé d'affaires would be authorised to discuss the matter with him. In the contrary case, he would instruct the Turkish Ambassador in Berlin to induce the German Government to give up the Bagdad-Gulf section of the concession, and let Turkey make part of the line herself, and in spite of the doubts expressed by you as to the success of the negotiations he was still sanguine.

Rifaat Pasha eventually promised to reply in the same manner in which our communication had been made, namely, in a despatch to be addressed to Tewfik Pasha, copy of which would be left with you.

I may add that Rifaat Pasha made no allusion to the fact that they were not prepared to *froisser* the Germans by giving a concession to a British company, but he did say that they would be confronted with great difficulties if they began a bargaining process over the 4 per cent. customs increase, as once it was known that a concession was to be made to us the French would demand another, and other Powers would follow suit.

I have, &c.

GERARD LOWTHER.

[22870]

No. 94.

Sir G. Lowther to Sir Edward Grey.—(Received June 27.)

(No. 403.)

Sir,

Constantinople, June 22, 1910.

I HAVE the honour to forward herewith a despatch from Mr. Rawlins, vice-consul at Adana, transmitting further notes on the construction of Bagdad Railway.

I have, &c.

GERARD LOWTHER.

Enclosure in No. 94.

Vice-Consul Rawlins to Sir G. Lowther.

(No. 22.)

Sir,

Adana, June 13, 1910.

I HAVE the honour to report that construction work on the Bagdad Railway is now being pushed on apace, and there are gangs out at work in and around Yenidje (about half an hour by rail from Adana) and also near the station of Chakir Pasha at a point where the opening ceremony was held, which was described in my despatch No. 9 of the 2nd May, and where the Bagdad line, after following the Mersina-Adana line from Yenidje, will branch off through the vineyards at the back of the town to come out on the large open fields which border the banks of the Seihun River. Enormous quantities of material continue to arrive from Mersina, and three or four luggage trains run daily from Mersina to Yenidje and Adana. It is, in fact, hard to remember that the Mersina line is distinct, at present, from the Bagdad Company, since the latter appear to have taken over the former, run their engines and waggons on it, and use it for their own purposes. Rumour has it that M. Endricks, director of the Mersina line, will, on relinquishing his post in nine months' time, become an active

member of the Bagdad Company and be given some higher post in the administration. The advent of the Bagdad Railway has caused a wild speculation in land, and extravagant buying is being indulged in by persons who think they know exactly where the line will pass, and are awaiting a great rise in property.

I have, &c.

E. C. DONALDSON RAWLINS.

[23095]

No. 95.

M. Maimon to Sir Edward Grey.—(Received June 27.)

Sir,

34, Rue des Vignes, Paris, June 23, 1910.

I HAVE the honour to send you herein enclosed copies of the following documents referring to the Homs-Bagdad, &c., project:—

1. Letter from M. Pichon to M. Bompard, May 14, 1910.
2. Letter from M. Pichon to M. Paul Cambon, May 23, 1910.
3. Letter from M. Pichon to M. Tardieu, May 26, 1910.
4. Letter from M. Pichon to M. Bompard, May 28, 1910.
5. Report from M. Bompard to M. Pichon, May 30, 1910. Djavid Bey never mentioned Ornstein nor Vandœuvre, nor the two projects of irrigation named in the paragraph on p. 4, which I marked in red.* The fact is there is not a single trace to be found in any department, neither at the Public Works nor at the Sublime Porte, of any proposition emanating from M. Ornstein directly or indirectly.
6. Letter from M. Pichon to M. Paul Cambon, May 31, 1910.
7. Letter from M. Bompard to M. Tardieu, June 1, 1910. Submitted to M. Pichon for his approval, but which M. Bompard omitted to sign.
8. Letter from M. Pichon to M. Tardieu, June 7, 1910. Of course the Ottoman Government will never put the question, as by so doing it would admit that the French have the disposal of the concession. To avoid a vicious circle I have brought the fact to the Turkish Government by my letter to Haladjian Effendi of the 9th June, of which I sent a copy to your department.
9. Letter from M. Pichon to M. Bompard, June 9, 1910.
10. Nazim Pasha's report concerning Sir William Willcocks, addressed to the Grand Vizier, Bagdad, April 22, 1910.
11. Letter I wrote to Mahmoud Chevet Pasha, March 20, 1910, to which is annexed a letter from Youssef Said Bey to Haladjian Effendi containing the general conditions put forward as an alternative to the kilometric guarantee, with the approval of Mr. Barry. As reference is often made to these conditions, I thought it useful to send you a copy of this document.
12. A memorandum I handed to-day to M. Tardieu, setting forth the principal facts, so as to enable him to make a communication to M. Pichon.
13. M. Huguenin's telegram to me of to-day's date.
14. My reply to the above.

I remain, &c.

BERNARD MAIMON.

P.S.—M. Noël Bardac and the Ottoman Bank people are frequently calling on M. Tardieu, pressing for an answer. Mr. Barry has just wired from Novorossisk (southern Russia) to say that he expects to reach Paris the 8th July.

Should your Excellency desire my calling on Mr. Mallet to explain the position in detail, I am quite prepared to do so before returning to Constantinople.

B. M.

Enclosure 1 in No. 95.

M. Pichon to M. Bompard.

Paris, le 14 mai, 1910.

AU cours d'un entretien avec M. André Tardieu, je lui ai donné connaissance de la note que vous m'avez remise à votre retour de Londres et dont les termes ont été arrêtés d'accord entre vous et M. Cambon au sujet de la ligne Homs-Bagdad. J'ai ajouté que j'acceptais complètement les conclusions de cette note, qui étaient

* Printed within brackets.

d'ailleurs conforme à l'idée qui m'avait guidé quand j'ai réclamé la concession de cette ligne.

M. Tardieu m'a répondu qu'il ne croyait aucunement à l'impossibilité d'obtenir cette concession au profit du groupe dont il fait partie, que ses informations lui permettaient, au contraire, de compter sur les dispositions favorables du Gouvernement turc. Il m'a déclaré qu'il ne solliciterait aucun concours diplomatique, et qu'il estimait n'en avoir pas besoin. Tout ce qu'il désire serait que nous fissions savoir au Gouvernement ottoman, si nous sommes interrogés par lui, que la demande de concession de la ligne Homs-Bagdad, présentée par Youssef Said Bey, peut se concilier avec la revendication d'ordre politique que nous avons formulée.

J'ai répondu à M. Tardieu que, puisqu'il ne réclamait plus une intervention diplomatique, j'étais disposé à accueillir favorablement sa requête dans les termes où elle était formulée.

Je vous autorise, en conséquence, si le Gouvernement Impérial vous entretenait à ce sujet, à lui faire une déclaration dans le sens indiqué ci-dessus.

Vous trouverez ci-joint copie de la lettre que M. Tardieu m'a remise à ce sujet.

P.

Enclosure 2 in No. 95.

M. Pichon to M. Cambon.

Paris, le 23 mai, 1910.

J'AI l'honneur de vous transmettre ci-joint, en copie, les instructions que j'ai adressées à M. Bompard au sujet du projet de chemin de fer de Homs à Bagdad dont sont venus m'entretenir MM. Tardieu et Barry et qui a fait l'objet de plusieurs entretiens entre vous, notre Ambassadeur à Constantinople, et mon département. Ces messieurs ne demandant pas un concours diplomatique actif de notre part, la mesure conservatoire que, d'un commun accord, nous avons décidé d'établir avant tout, ne me semble que pouvoir être renforcée par l'attitude que M. Bompard pourra, éventuellement, être appelé à prendre selon mes indications dans la question: la réalisation d'une voie ferrée de Homs à Bagdad, faite sur les bases que nous avons indiquées paraît devoir en effet assurer toute garantie aux intérêts que nous avons à sauvegarder dans cette partie de l'Empire ottoman.

P.

Enclosure 3 in No. 95.

M. Pichon to M. Tardieu.

Paris, le 26 mai, 1910.

Monsieur,

J'AI l'honneur de vous accuser réception de votre lettre en date du 21 de ce mois relative à un projet de chemin de fer entre Homs et Bagdad.

Vous m'avez exposé que vous ne réclamiez pas à ce sujet notre concours diplomatique. Je ne vois pas d'inconvénient à vous confirmer dans ces conditions ce que je vous ai indiqué verbalement, à savoir, que notre Ambassadeur à Constantinople, s'il était interrogé à ce sujet par le Gouvernement ottoman, était autorisé à déclarer que le Gouvernement de la République ne voyait aucun obstacle à la continuation des négociations engagées entre Youssef Said Bey et le Gouvernement Impérial.

Recevez, &c.

S. PICHON.

Enclosure 4 in No. 95.

M. Pichon to M. Bompard.

Paris, le 28 mai, 1910.

POUR faire suite à mes précédentes dépêches relatives à la construction d'une voie ferrée de Homs à Bagdad, j'ai l'honneur de vous transmettre ci-joint, en copie, pour votre information personnelle, une nouvelle lettre que M. Tardieu m'a adressée à ce sujet ainsi que la réponse que j'ai faite à cette lettre.

P.

Enclosure 5 in No. 95.

*M. Bompard to M. Pichon.**Péra, le 30 mai, 1910.*

DJAVID BEY, Ministre des Finances, est venu me voir hier, et nous avons eu ensemble une conversation dont je crois bon de faire connaître à votre Excellence la substance.

Parlant tout d'abord du 4 pour cent des douanes, je lui dit que votre Excellence, dès qu'elle avait été saisie de la question, avait manifesté le vif désir de donner satisfaction sans réserve au Gouvernement ottoman, mais qu'elle n'avait pas été suivie par les autres Cabinets, notamment par celui de Berlin. Le Gouvernement allemand, en effet, voudrait tirer parti de la condition—bien naturelle cependant—mise à son consentement par le Gouvernement britannique, que l'augmentation des droits profiterait au Trésor et non au Chemin de Fer de Bagdad pour se faire attribuer des garanties pour le prolongement de cette voie ferrée d'El Halif à Bagdad. Déjà les 840 kilom. de Bourgourlou à El Halif seront garantis au moyen des disponibilités résultant de l'unification de la dette, disponibilités qui résultent des sacrifices imposés aux porteurs, en grande majorité français, des fonds publics ottomans. Faudrait-il maintenant que le commerce étranger fit les frais du prolongement de la ligne allemande depuis El Halif jusqu'à Bagdad? Djavid Bey m'a dit qu'il comprenait parfaitement la force de cette objection, mais il a ajouté que la Porte se trouvait dans une impasse, le Gouvernement allemand, fort de son contrat, ne voulant consentir à aucune concession sans compensation. Il ne restait donc qu'à renoncer au 4 pour cent des douanes. Je lui ai répondu qu'il suffirait de dégager la question du 4 pour cent de celle du prolongement de la ligne de Bagdad, qui y avait été facticement soudée par l'Allemagne, et que la bonne volonté de la France lui demeurerait, dans ces conditions, entièrement acquise.

Au cours de notre conversation sur le Bagdad allemand, Djavid Bey a fait allusion à la ligne de Bagdad au Golfe Persique et à celle de Bagdad à la Méditerranée par Homs. En ce qui concerne la première, il m'a déclaré que le Gouvernement ottoman était en droit de s'affranchir, quand il lui plairait, de toute obligation à l'égard de la Compagnie du Chemin de Fer de Bagdad et de disposer de la ligne à son gré. Le mieux, d'après lui, serait que cette ligne fût construite par le Gouvernement ottoman lui-même avec des fonds français et anglais et exploitée par une société suisse ou belge. Quant à la ligne Homs-Bagdad, il la verrait d'un œil favorable, m'a-t-il dit, si elle ne devait concurrencer la ligne allemande, pour laquelle le Gouvernement ottoman aurait ainsi à payer intégralement la garantie de 15,500 fr. par kilom. Ce sera, a-t-il ajouté, une affaire à reprendre quand se traitera celle de la mise en valeur de la Mésopotamie, qu'il estime très intéressante et d'une réalisation facile.

Djavid Bey, qui se dispose à aller à Paris dans quelques semaines et qui devra nécessairement y parler emprunt, car l'état de la Trésorerie ne lui permettra pas d'attendre longtemps encore avant de faire appel au crédit, se rend compte de la nécessité de se faire précéder par des satisfactions à la finance et à l'industrie française. Après m'avoir rappelé que les seules concessions de chemin de fer données depuis l'avènement du nouveau régime, celles du Yémen, de Homs à Tripoli et de Soma-Panderma, l'ont été à des sociétés françaises; il m'a dit que la loi sur les concessions votée déjà par la Chambre le serait bientôt par le Sénat et qu'alors le Gouvernement, maître de ses actes, conclurait de nombreux contrats d'entreprises.

J'ai fait remarquer à Djavid Bey que le Soma-Panderma, dont il venait de me parler, n'était pas encore voté par le Parlement; il m'a affirmé qu'il ne négligerait rien pour obtenir ce vote avant la clôture de la session.

J'ai profité de la mention de cette affaire pour l'interroger sur le Chemin de Fer du Hedjaz. Cette ligne donne, m'a-t-il dit, de fort belles ressources, mais elle est exploitée de la façon la plus piteuse; il aurait voulu en affermer l'exploitation à une compagnie, et il avait inséré dans la Loi de Finance une disposition l'autorisant à le faire, mais la commission du budget a repoussé cette disposition; et il croit bien que la Chambre statuera dans le même sens, de crainte de placer sous une direction étrangère la ligne construite aux frais des musulmans; mais il a reconnu avec moi qu'il faudrait bien en venir là tôt ou tard; je lui ai alors déclaré que nous comptions que, le moment venu, l'exploitation serait confiée à la Compagnie Beyrouth-Damas Hamah et Prolongements, laissant de côté les lignes de Kara-Hissar à Djoumala-Bala et de Drama à Cavalla dont la concession est assurée à la Compagnie jonction Salonique. J'en suis venu aux routes dont j'avais entretenu, mercredi dernier, le Grand Vizir. Je lui ai dit que, si le Gouvernement ottoman voulait envisager sérieusement la question des routes

si importante pour le développement agricole de la Turquie il trouverait en France à qui parler, aussi bien en fait d'entrepreneurs que de financiers. J'ai insisté sur ce sujet avec beaucoup de fermeté, tant auprès de Djavid Bey que d'Hakki Pacha, de façon à leur faire comprendre l'importance exceptionnelle que j'attachais à cette communication, et j'ai engagé vivement Djavid Bey à se documenter sur la question avant de partir pour la France afin d'être en mesure de s'en entretenir avec qui de droit pendant son séjour à Paris.

[Nous avons ensuite touché aux entreprises d'irrigation de Mésopotamie et d'Adana. Pour les premières Djavid Bey m'a dit que les propositions de M. Ornstein avaient été traduites en turc et qu'elles allaient être examinées au Conseil des Ministres. Quant à Adana, le Baron de Vandœuvre avait présenté des offres qui seraient bientôt discutées.]

Au cours de notre conversation Djavid Bey m'a exprimé à plusieurs reprises, et avec chaleur, des sentiments d'amitié à l'égard de la France, qui sont réels et dont nous devons lui tenir compte. D'autre part, l'expérience qu'il a faite, l'été dernier, de conclure un emprunt de £ T. 7,000,000 avec Sir Ernest Cassel l'a convaincu que la France est le seul marché des fonds publics ottomans. Je me suis donc efforcé de faire comprendre au Ministre des Finances à quelles conditions il trouverait des capitaux en France; il les a, je crois, d'autant mieux compris qu'il s'en doutait bien par avance. Il appartiendra, désormais, à nos banquiers et à nos hommes d'affaires, quand le Ministre des Finances traitera avec eux, de faire remplir ces conditions; je suis assuré qu'au surplus votre Excellence y veillera.

P.

Enclosure 6 in No. 95.

*M. Pichon to M. Cambon.**Paris, le 31 mai, 1910.*

COMME suite à ma dépêche du 23 mai, j'ai l'honneur de vous transmettre ci-joint copie d'une lettre de M. Tardieu du 21 mai relative à la ligne Homs-Bagdad. Dans la réponse ci-annexée que j'ai adressée à M. Tardieu je lui ai indiqué le sens des instructions envoyées à notre Ambassadeur à Constantinople pour préciser les déclarations que ce dernier était autorisé à faire à ce sujet au Gouvernement ottoman.

Par une nouvelle lettre du 27 mai, également ci-jointe en copie, M. Tardieu m'exprime le désir que Sir E. Grey soit tenu informé des termes de cette réponse et mis ainsi au courant de l'attitude adoptée dans cette question par le Gouvernement de la République.

Je ne vois pas d'objections à ce que vous fassiez au Premier Secrétaire d'État la communication désirée par M. Tardieu.

P.

Enclosure 7 in No. 95.

*M. Bompard's Note to M. Pichon.**Péra, le 1^{er} juin, 1910.*

AYANT reçu de M. Tardieu la lettre dont la copie est ci-jointe, je lui ai préparé la réponse ci-annexée. Je serai obligé à votre Excellence de vouloir bien lui remettre celle-ci, si elle le juge à propos, et m'aviser de la détermination qu'elle aura prise à cet égard.

B.

*M. Tardieu to M. Bompard.**Péra, le 1^{er} juin, 1910.*

Monsieur,

J'ai l'honneur de vous accuser réception des copies de la lettre que M. le Ministre des Affaires Étrangères vous a adressée le 26 mai et de celle par laquelle vous lui avez répondu le lendemain, copies qui étaient jointes à votre lettre du 27 mai, 1910.

En réponse à la question que vous me posez dans cette dernière lettre, j'ai l'honneur de vous faire connaître que, n'ayant pas été interrogé par le Gouvernement ottoman, je ne me suis pas trouvé dans le cas de faire à celui-ci la déclaration autorisée par le Ministre des Affaires Étrangères.

Agréez, &c.

(Signature absente.)

Enclosure 8 in No. 95.

M. Pichon to M. Tardieu.

Monsieur,

Paris, le 7 juin, 1910.

PAR une lettre dont notre Ambassadeur à Constantinople m'a donné connaissance vous indiquiez à M. Bompard que vous seriez heureux d'apprendre que l'occasion s'était offerte à lui de déclarer au Gouvernement ottoman, conformément à mes instructions, qu'aucun obstacle ne serait vu par le Gouvernement de la République à la continuation des négociations engagées entre Youssouf Saïd Bey et le Gouvernement Impérial.

Notre représentant à Constantinople me communique sa réponse à la question que vous lui avez posée; il en résulte que n'ayant pas été interrogé par le Gouvernement ottoman, notre Ambassadeur ne s'est pas trouvé dans le cas de faire la déclaration ci-dessus.

Agréez, &c.

S. PICHON.

Enclosure 9 in No. 95.

M. Pichon to M. Bompard.

Paris, le 9 juin, 1910.

VOUS avez bien voulu, à la date du 1^{er} juin dernier, me donner connaissance du contenu d'une lettre que vous aviez reçue de M. Tardieu et me soumettre en même temps le texte de la réponse que vous aviez préparée. J'ai l'honneur de vous retourner ci-joint ce dernier document, auquel vous avez oublié d'apposer votre signature; je m'en suis du reste approprié les termes pour faire à ce sujet une communication écrite à M. Tardieu dont vous trouverez copie ci-jointe.

P.

Enclosure 10 in No. 95.

Traduction officielle du Rapport en date du 22 avril, 1910 (v.s.), du Général Nazim Pacha, Gouverneur général de Bagdad.

COMME suite à ma dépêche d'hier, j'ai l'honneur d'adresser à votre Altesse le présent rapport au sujet de l'affaire Willcocks. Suivant le désir exprimé par le Gouvernement avant mon départ de Constantinople, je me suis mis à faire une enquête minutieuse sur l'état des travaux de l'irrigation de la Mésopotamie. Avant mon arrivée à Bagdad, j'ai déjà pu constater que, près de Feludja, à l'endroit nommé Habenia, l'ingénieur Apdet payait aux ouvriers terrassiers une moyenne de 1 medjidié par jour. A Kananieh, malgré que l'urgence de la construction d'une digue se fait sentir de plus en plus pour la protection de Bagdad contre les inondations, Willcocks y a abandonné les travaux pour employer ses ingénieurs à continuer le nivellement général et a commencé la construction du nouveau barrage de Hindié.

Le vieux barrage de Hindié, que j'ai visité, se trouve dans un état lamentable: toute l'aile gauche a été emportée par le courant et le reste n'a pas l'air d'être bien solide.

La branche de Hilleh, pour le curage de laquelle il dépensera £ T. 10,000, n'a nullement amélioré la condition de cette ville, et j'y ai trouvé les habitants extrêmement mécontents. Arrivé à Bagdad j'ai pu constater par moi-même qu'il y avait un manque absolu d'ordre dans l'administration de cette entreprise. Malgré les salaires exagérés payés aux personnels que Willcocks avait pris avec lui et ceux plus exagérés encore des personnes qu'il fit venir l'hiver passé, j'ai pu constater que pas un d'entre eux n'était à la hauteur de la tâche. L'un, celui qu'il appelle "l'agent général des transports" et qui se serait soi-disant déjà occupé des transports pour l'armée anglaise au Soudan, le nommé Colonel Tomkins, d'après les informations que j'ai prises, ne serait autre qu'un ancien chef de police au Caire.

Je pense que la plupart de ces messieurs sont des officiers de l'armée anglaise, servant de propagande à l'influence anglaise en Mésopotamie et dans l'Irak. Je vous dirai à ce sujet, Altesse, que j'ai relevé plusieurs irrégularités, qui ne font que confirmer les doutes déjà exprimés sur l'attitude suspect de ces étrangers. Notamment, j'ai appris que le consul d'Angleterre recevait, avant tout le monde, une copie de tout ce qui se faisait comme cartes ou rapports dans les bureaux de Willcocks.

Les diverses fournitures se font exclusivement par des maisons anglaises de Bagdad, et cela sans aucune adjudication préalable. Je dois surtout insister sur le mécontentement qui existe parmi la population, qui voit que d'aussi grandes dépenses n'ont amené encore aucune amélioration à leurs besoins d'eau.

La région de Hilet, qui est la plus éprouvée des villes, bien que la plus riche au point de vue agricole, a eu la plus grande déception: au lieu de voir ses conditions s'améliorer, elles se sont empirées considérablement. Sur les deux rives de la Dijalla les habitants sont plus qu'auparavant contraints à s'arracher le peu d'eau que leur fournit cette branche en été, en se livrant toujours des batailles, qui dégénèrent souvent en rixes sanglantes.

L'immense propriété de l'Instak-i-Emirié, aux environs de Bélet, est en train de périr par manque d'eau, et Willcocks n'a même pas encore songé à y porter remède. A mon humble avis, au lieu de ces vastes projets de travaux gigantesques, que nous ne pouvons achever de sitôt, il faudra s'occuper de travaux plus pressants pour satisfaire les besoins immédiats de la population. Je compte sous peu vous envoyer une énumération des travaux journalièrement sollicités par les agriculteurs d'ici, qui ne demanderaient même pas le dixième de ceux dont Willcocks aurait besoin, mais qui pourtant améliorent sensiblement la situation économique de ces provinces.

Devant ces faits que je viens d'exposer à votre Altesse, je dégage la conclusion, soit au point de vue économique, soit au point de vue politique, qu'il vaut mieux dans l'intérêt de notre pays, résilier au plus vite le contrat avec Willcocks et vous prie, Altesse, de bien vouloir ordonner au Ministre des Travaux Publics d'accélérer l'achèvement des routes projetées pour desservir Bagdad et Kerbéla, d'entreprendre immédiatement la construction des ponts sur le Tigre et l'Euphrate, car ceux qui existent actuellement sont dans un état lamentable. Je serais d'avis d'employer les crédits futurs pour la Mésopotamie à l'exécution des travaux susnommés, ainsi que ceux que j'aurai l'honneur de présenter à votre Altesse.

Enclosure 11 in No. 95.

M. Maimon to Mahmoud Cheket Pasha.

Excellence,

Constantinople, le 7 (20) mars, 1910.

COMME suite de la conversation que j'ai eu l'honneur d'avoir hier avec votre Excellence je vous transmets ci-joint copie de la dernière lettre envoyée au Ministre des Travaux Publics le 17 février par Youssouf Saïd Bey, mon associé dans le projet Homs-Bagdad.

La lecture de cette lettre et les conditions y énoncées prouveront à votre Excellence que mon projet est inspiré par un fervent désir d'assurer au Gouvernement constitutionnel ottoman la propriété d'une ligne ferrée directe à voie normale de la Méditerranée à Bagdad dans des conditions répondant à ses véritables intérêts, le mettant simultanément à même de s'affranchir des réclamations plus ou moins dépourvues de base qui pourraient être élevées contre lui par des tiers.

En jetant les yeux sur la carte que j'ai cru devoir vous faire remettre, votre Excellence constatera qu'en établissant le tracé de la ligne sur la rive gauche de l'Euphrate entre le confluent du Khabour et Anah j'ai évité une grande courbe inutile, et qu'en le continuant d'Anah à Bagdad sans passer par Hit et Seklavié j'ai obéi à la préoccupation de prévenir tout prétexte à conflit avec des concessions déjà accordées.

J'ai, &c.

BERNARD MAIMON.

Youssouf Saïd Bey to Haladjian Effendi.

Excellence,

Stamboul, le 19 février (4 mars), 1910.

J'AI l'honneur de déclarer à votre Excellence que j'ai accepté toutes les modifications qui m'ont été imposées par votre Ministère dans le projet que je lui ai soumis pour la construction et l'exploitation d'un chemin de fer à voie normale de Homs à Bagdad, passant par Tadmor, Deir, et Anah.

M'inspirant du désir que m'avait exprimé en dernier lieu l'adjoint de votre Excellence, et, après avoir consulté mon groupe, j'ai l'honneur de déclarer à votre Excellence que, si le Gouvernement Impérial préfère construire lui-même la dite voie ferrée au moyen d'un emprunt, je suis à même de lui faire la proposition ci-contre.

[1723]

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Après avoir obtenu l'adhésion de mon groupe à ces conditions sur le désir qui m'a été exprimé par l'adjoint de votre Excellence, et auquel j'ai accédé dans l'intérêt de mon pays, je me plais à espérer que le Gouvernement Impérial daignera me témoigner son appréciation en leur accordant la suite qu'elles comportent.

Par la même occasion j'ai l'honneur de porter à votre connaissance le fait que mon associé dans l'entreprise sollicitée, M. Bernard Maimon, est de retour depuis hier à Constantinople, et qu'il se tient à votre entière disposition pour tous détails se rattachant à l'un ou l'autre de ces deux projets.

J'ai, &c.

YOUSSEUF SAÏD BEY,

Fils de feu Mehmed Halis Pacha.

Conditions générales.

LE Gouvernement Impérial construira la ligne au moyen du produit d'obligations portant un intérêt de $4\frac{1}{2}$ pour cent, que mon groupe souscrira ferme à un taux de prise à être déterminé d'un commun accord.

2. L'intérêt et l'amortissement de ces obligations seront gagés par les recettes de la ligne. Si les recettes n'étaient pas suffisantes pour servir le $4\frac{1}{2}$ pour cent, le Gouvernement Impérial s'engagerait à parfaire la différence.

3. Le Gouvernement Impérial aura le droit de racheter, en partie ou en totalité, les dites obligations au pair après les premières douze années d'exploitation.

4. Jusqu'à l'amortissement de toutes les obligations, la ligne sera administrée par un directeur général nommé par le Ministère des Travaux Publics, lequel directeur général sera assisté d'un comité dont la moitié des membres sera désignée par le Gouvernement Impérial.

5. L'ingénieur en chef de la construction ainsi que de l'exploitation, sera nommé par mon groupe et exercera ses fonctions sous la direction du directeur général nommé par le Gouvernement.

6. Les bénéfices réalisés par l'exploitation de la ligne après déduction de tous les frais d'exploitation et de l'intérêt susdit, de $4\frac{1}{2}$ pour cent pour le service des obligations, seront partagés pendant les premières vingt-cinq années de l'exploitation de la façon suivante : 75 pour cent au Gouvernement Impérial et 25 pour cent à mon groupe.

YOUSSEUF SAÏD BEY,

Fils de feu Mehmed Halis Pacha.

Enclosure 12 in No. 95.

Memorandum communicated to M. Tardieu by M. Maimon.

A LA suite de l'entente établie entre les Gouvernements français et anglais au sujet de la demande de concession d'un Chemin de Fer de Homs à Bagdad présentée par Yousseuf Saïd Bey, M. Maimon, son associé, a eu, le 8 juin dernier, une conférence avec Haladjian Effendi, Ministre des Travaux Publics.

Le lendemain, sur la demande qu'elle lui en avait faite, M. Maimon écrivit à son Excellence une lettre dans laquelle il lui rappelait les diverses phases des négociations relatives à cette demande ainsi, que la cause de leur interruption, et de plus l'informait que M. Pichon avait autorisé M. Bompard à déclarer, s'il était interrogé à cet égard par le Gouvernement ottoman, que le Gouvernement de la République ne voyait aucun obstacle à la continuation des négociations engagées entre Yousseuf Saïd Bey et la Sublime Porte.

Comme la question de garantie relève du Ministre des Finances, M. Maimon, s'est mis aussitôt en communication avec Djavid Bey, avec qui il a eu plusieurs conversations. Dans ces conversations le Ministre a insisté sur la nécessité pour les demandeurs de la concession Homs-Bagdad de s'entendre avec les Allemands afin que ceux-ci ne fassent pas au dernier moment opposition à cette concession de même qu'ils s'étaient opposés à la concession de Samsoun à Sivas demandée par Mr. Chester au nom d'un groupe américain. Ce projet avait passé par toute la filière administrative, il avait même été approuvé par les Chambres ; il ne lui manquait que la sanction Impériale ; cependant, il a dû être mis de côté, pour le moment.

"Entendez-vous avec les Allemands et vous aurez la concession," a dit Djavid Bey à M. Maimon.

Le 14, M. Maimon pressentit M. Huguenin, directeur général du Chemin de Fer ottoman d'Anatolie, qui partait le lendemain, et avec qui il avait eu précédemment sur cette question plusieurs conversations—à l'une desquelles assistait Mr. Barry. Ce même jour il avait avec Djavid Bey un nouvel entretien, qui adressait à son Excellence un mémoire dans lequel il lui exposait le programme ci-dessous, et se déclarait prêt à se mettre immédiatement en rapport avec la Société du Bagdadbahn—après avoir obtenu l'adhésion de M. Tardieu et Mr. Barry—afin de négocier un accord, si, toutefois, le Gouvernement Impérial approuvait le programme et appréciait les grands avantages qu'il offrait au Trésor ottoman.

Le mémoire, qui portait la date du 14 juin, a été remis à Djavid Bey à sa résidence de Stamboul le même jour à 7 heures du soir. Le 16, au soir, M. Maimon, dont le départ de Constantinople avait lieu le lendemain, recevait de son Excellence le message suivant :—

"J'ai lu attentivement le programme de M. Maimon. C'est parfait ; il n'a qu'à s'en occuper maintenant."

1. Le tracé du Bagdadbahn de Tell Habech à Bagdad par Nissibin et Mossoul a un développement de 1,392 kilom., ce qui, au taux de 15,500 fr. par kilomètre (11,000 fr. pour l'annuité appliquée au service du capital de construction, et 4,500 fr. pour l'exploitation) représente pour le Trésor Impérial une charge annuelle éventuelle de 21,576,000 fr. L'on pourrait d'autant moins en prévoir la diminution sensible que la ligne susdite traverse de hauts plateaux rocailleux et stériles que même les Assyriens ont délaissés. En outre, la longueur de la ligne et les frais énormes qui pèseraient sur le trafic empêcheraient le transport d'une foule de produits, tels que les céréales, les minerais bruts, les fruits, et toutes les marchandises, comme les voyageurs, exigeant la grande vitesse. Et ainsi, le Gouvernement Impérial ottoman ne pourrait entrevoir la fin de ses sacrifices, sans compter les longs délais inhérents à la négociation et à la capitalisation par les concessionnaires allemands des disponibilités que le Trésor leur abandonne, ce qui fait que les contrées à féconder resteront encore longtemps privées de moyens de communication et du développement qui doit en résulter.

2. Mon projet étant de faire substituer au tracé actuel du Bagdadbahn celui de Tell Habech-Alep-Deir-Anah-Bagdad avec deux embranchements, l'un de Deir à Homs, l'autre de Bagdad à Bassora, que mon associé à l'honneur de solliciter, tous ces inconvénients cessent, et le Gouvernement Impérial réaliserait une économie annuelle énorme de 8,680,000 fr. : 832 kilom. à 15,500 fr. = 12,896,000 fr., au lieu de 1,392 kilom. à 15,500 fr. = 21,576,000 fr.

3. Une entente entre le Gouvernement Impérial et les concessionnaires allemands sur la base de la continuation du paiement forfaitaire de 4,500 fr. pour l'exploitation, avec changement de régime en ce qui concerne l'annuité de 11,000 fr. pour le service du capital de construction, procurerait au Trésor Impérial des avantages encore plus grands. Et, en effet, je crois, pouvoir dès à présent assurer à votre Excellence que si la susdite entente s'effectuait, je pourrais faire avancer au Gouvernement Impérial à $4\frac{1}{2}$ pour cent d'intérêt les sommes nécessaires à la construction des 832 kilom.—longueur de la ligne de Tell Habech à Bagdad. En prenant pour base 100,000 fr. comme prix kilométrique, prix amplement suffisant ainsi qu'il résulte du devis estimatif du coût de construction de la section Alep-Deir que j'ai l'honneur d'annexer au présent exposé, l'on arrive au chiffre total de 83,200,000 fr., sur lequel le Trésor Impérial payerait annuellement en intérêts ($4\frac{1}{2}$ pour cent) et en amortissement ($\frac{1}{2}$ pour cent) 4,160,000 fr. En ajoutant à ce chiffre 3,744,000 fr. pour frais d'exploitation sur le parcours de 832 kilom., l'on a 7,904,000 fr. qu'aurait à payer le Gouvernement ottoman, au lieu de 21,576,000 fr. suivant les arrangements existants et de 12,896,000 fr. sur le tracé modifié en maintenant les mêmes arrangements.

4. Cette économie mettrait le Gouvernement Impérial en état de prévoir la construction de l'embranchement de Homs à Deir, et de celui de Bagdad à Bassora en choisissant pour cette dernière ligne un tracé plus direct le long du Tigre au lieu du tracé actuel, et il doterait ainsi l'Empire de trois grandes artères, de Constantinople à La Mecque et éventuellement au Yémen, de Constantinople à Bagdad, et de la Méditerranée au Golfe Persique.

5. Quant aux deux lignes de Homs à Deir et de Bagdad à Bassora, le Gouvernement Impérial les construirait suivant un nouveau régime soumis par Yousseuf Saïd Bey à son Excellence le Ministre des Travaux Publics en date du 19 février (4 mars) dernier approuvé par mon groupe et dont j'ai eu l'honneur de vous remettre une copie, lequel régime assure au Gouvernement Impérial le contrôle effectif tant dans leur construction que dans leur exploitation.

[1723]

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Se rappelant une objection formulée par Djavid Bey, qui reprochait au nouveau tracé projeté par lui de ne point desservir des localités importantes telles que celle de Mossoul, M. Maimon a fait remarquer à son Excellence dans son exposé qu'une fois l'artère principale construite, ces localités pourraient y être reliées par des embranchements qui auraient un trafic assuré assez considérable pour exclure toute nécessité de garantie kilométrique.

Si ce programme était adopté par toutes les parties intéressées, les trois débouchés principaux à Mersine, à Tripoli, et à Bassora desserviraient respectivement les trois régions distinctes dont ils sont les issues naturelles. A la première de ces régions appartient la partie la plus importante de l'Anatolie laquelle s'étend vers l'est et le nord-est jusqu'à Diarbékir et Van, et au sud jusqu'à Alep et Deir. A la seconde appartiennent les contrées arrosées par l'Euphrate et la partie de la Mésopotamie qui s'étend jusqu'à Bagdad. A la troisième, enfin, les pays riverains du Tigre au sud de Bagdad, la basse Mésopotamie, et le bassin du Chat-el-Arab.

BERNARD MAIMON.

Paris, le 23 juin, 1910.

Enclosure 13 in No. 95.

M. Huguenin to M. Maimon.

(Télégraphique.)

Suisse, le 23 juin, 1910.

MÉTANT endommagé une jambe le jour de mon arrivée, médecin me défend de voyager pour le moment.

Enclosure 14 in No. 95.

M. Maimon to M. Huguenin.

(Télégraphique.)

Paris, le 23 juin, 1910.

SUIS désolé de votre accident. Quant à moi, ai fait voyage atroce. Ai eu plusieurs conversations avec Tardieu et suis en communication avec groupe anglais sur les bases que vous connaissez, lesquelles ont trouvé bon accueil là-bas. Votre état santé vous permettra-t-il me voir chez vous dimanche prochain? Compliments.

[23096]

No. 96.

M. Maimon to Mr. Barry.—(Communicated to Foreign Office, June 27.)

My dear Barry,

Paris, June 25, 1910.

AUBOYNEAU, of the Ottoman Bank, has had a long conference with Tardieu to-day, and the latter has just 'phoned me to say that things seem to go on all right on that side.

As far as I have been able to gather, it would seem that the Ottoman Bank people would rather like to see omitted from my programme the section from Aleppo to Deir, so as to oblige the Bagdadbahn to adopt the French section Aleppo-Hama-Homs and the Anglo-French section Homs-Deir, and only continue their Bagdadbahn to Bagdad from this latter place. Tardieu said as much to me this morning.

I fear that this would be asking too much, in view of the fact that they are also asked to give up entirely the continuation south of Bagdad in favour of England.

I infer that the Ottoman Bank, on coming to terms with us, would undertake not to consent the 20,000,000l. loan to Turkey until the concession Homs-Bagdad is accorded on the lines of the existing arrangements. If this were really the case, then it would, to my mind, be highly desirable to come to terms with that institution.

What a pity you are not here at this moment so as to sound our Government on all this, for it is evident that we must do absolutely nothing without its hearty approval. Of course you and I are perfectly agreed on that point, and so is Tardieu, I feel sure. But let us not forget that he is simply guided by a desire to act honourably and be "correct"; whereas, in addition to such praiseworthy motives, you and I are actuated by the desire to serve the cause of England.

I am off to Locle to-night, Huguenin having accepted the appointment for to-morrow, and I propose to continue keeping Sir Edward Grey informed of all that happens, in accordance with what has been agreed between us at Constantinople.

Herein enclosed you will find copy of Tardieu's letter of to-day's date, of which I am also sending a copy to the Foreign Office.

Always yours,

BERNARD MAIMON.

Enclosure in No. 96.

M. Tardieu to M. Maimon.

26, Avenue de Messine, Paris,

Le 25 juin, 1910.

Cher Monsieur,

JE suis assez embarrassé pour répondre avec précision à la question que votre lettre me pose.

D'une part, la combinaison que vous avez envisagée touche à tant d'intérêts qu'elle demande à être examinée de près.

D'autre part, il serait utile de savoir ce qu'en pense M. Pichon, et les fêtes bulgares m'empêcheront jusqu'à mardi de trouver les deux heures nécessaires pour en causer avec lui.

En troisième lieu, Mr. Barry est loin, et, enfin, les négociations qu'ont engagées avec moi les autres groupes français m'obligeraient, même si mon opinion personnelle était faite, à une extrême réserve.

Cela dit, voici mon état d'esprit actuel à l'égard de vos projets :

En principe, je suis partisan de l'entente avec les Allemands, pour plusieurs raisons que voici :—

1. L'affaire du Maroc a prouvé qu'il ne sert à rien de se quereller pendant cinq ans pour ensuite s'accorder et concilier les intérêts. C'est une opinion que je n'ai pas besoin de développer. La part que j'ai prise à l'accord franco-allemand de 1909 et à celui qui vient de se conclure au Congo précise suffisamment mon état d'esprit.

2. Au point de vue turc, les Puissances, notamment la France et l'Allemagne, ont intérêt à éviter les conflits inutiles.

3. Ces conflits pourraient être sérieux si on laissait aller les événements trop loin, car, étant donnée l'importance des éléments français et anglais qui s'occupent de l'affaire actuelle, cette affaire se fera tôt ou tard, et si elle se fait sans l'Allemagne, elle aura l'air de se faire contre elle, avec tous les inconvénients de cette apparence.

Voilà pour le principe. J'arrive au fait. L'entente est-elle possible, et sur quelles bases?

Il y a une première combinaison que j'appellerai l'entente à deux termes : c'est-à-dire, l'affaire se faisant telle que nous l'avons conçue, sans changement de nos plans, comprenant la ligne Homs-Bagdad et probablement aussi les irrigations, et les Allemands entrant dans cette affaire comme participants sur des bases à déterminer, mais sans non plus modifier le tracé de la Bagdadbahn.

Il y a une seconde combinaison que j'appellerai l'entente unifiée : c'est-à-dire, notre affaire se modifiant en même temps que se modifierait l'affaire allemande de la Bagdadbahn et les deux fusionnant en un projet nouveau.

C'est l'hypothèse que vous avez envisagée. Que vaut cette hypothèse? Pour qu'elle soit satisfaisante, il faut qu'elle tienne compte à la fois des intérêts allemands et des nôtres.

Votre mémoire à Djavid Bey prévoit une modification du tracé de la Bagdadbahn. Elle passerait par Tell-Habech, Alep, Deir, Anah, Bagdad. Les Français (ou franco-anglais) construiraient la ligne Homs-Deir. La dernière section Bagdad-Bassora pourrait être construite par les Anglais, qui la réclament, comme vous savez. Mais laissons-la de côté pour le moment.

Cette combinaison est très acceptable pour les Allemands. Ils arrivent à Bagdad plus vite. Ils ont un tracé plus rationnel. Ils dégagent la Turquie d'une lourde part de la garantie kilométrique et, du même coup, s'assurent le paiement de la garantie.

Elle est, à mon avis, beaucoup moins acceptable pour les Français. Ils avaient conçu une grande artère vers Bagdad. Dans la proposition que vous m'avez soumise ils n'ont plus, en somme, à construire qu'un embranchement du Bagdad allemand.

Que peut-on faire pour rendre cette combinaison acceptable aux Français? A très grands traits, je vous propose ceci :—

La modification couplée des projets allemands et français implique une pensée d'accord : il faut donc que cette pensée se traduise dans les faits. Comment la traduire?

Selon moi, le moyen, c'est que la dernière section (Deir-Bagdad) et les deux autres sections (Alep-Deir et Homs-Deir) soient groupées dans la forme d'une société franco-allemande ou franco-anglo-allemande des chemins de fer de Mésopotamie; c'est, en d'autres termes, qu'on exprime d'une façon pratique cette vérité que, arrivant ensemble à Bagdad, on y est arrivé d'accord.

Il y a diverses façons d'obtenir ce résultat—d'autant plus que comme contre-partie, rien n'empêche de faire aux Allemands leur place dans l'affaire des irrigations, et qu'enfin la question de la cote pourra se poser de nouveau.

Les intérêts et les sentiments seront satisfaits, du côté allemand, si l'Allemagne mène la construction de sa ligne jusqu'à Bagdad. Il y a là un *Gefühl* dont je tiens compte. Mais cela, une fois fait d'accord, il n'y a pas de raison pour ne pas exploiter le tout ensemble. C'est la logique dictée par l'examen de la carte.

Renversez, au contraire, la situation : Supposez le tracé allemand restant ce qu'il est et notre ligne Homs-Bagdad se faisant (car elle se fera nécessairement), qu'est-ce que les Allemands y auront gagné? Rien; car, pour le transport des marchandises et des voyageurs, ils ne pourront pas nous concurrencer.

Leur avantage évident est donc de modifier leur tracé d'accord avec nous. Mais il ne faut pas que ce soit nous qui fassions les frais de l'opération. Or, nous le ferions si nous ne construisions que Homs-Deir, embranchement d'un chemin de fer allemand où notre situation serait nulle.

En un mot, il faut que la section Deir-Bagdad, construite par l'Allemagne, devienne une fois construite, un élément d'un consortium international, dans une forme à trouver, présidence alternative, &c.

Ce sont là des vues bien incomplètes, bien hâtives. Votre désir de les recevoir ce matin m'oblige à faire vite.

Je n'ai pas besoin de vous prier de garder pour vous seul ces vues personnelles, que tant de circonstances politiques ou économiques peuvent modifier, et de les considérer seulement comme le fruit de réflexions conditionnelles.

Sincèrement vôtre,

ANDRÉ TARDIEU.

CONFIDENTIAL.

(9729.)

PART VII.

FURTHER CORRESPONDENCE

RESPECTING THE

BAGDAD RAILWAY.

January to June 1910.